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July 4, 1983

Forbes

SPECIAL REPORT ON
INTERNATIONAL
BUSINESS



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CLOSE THE GAP?

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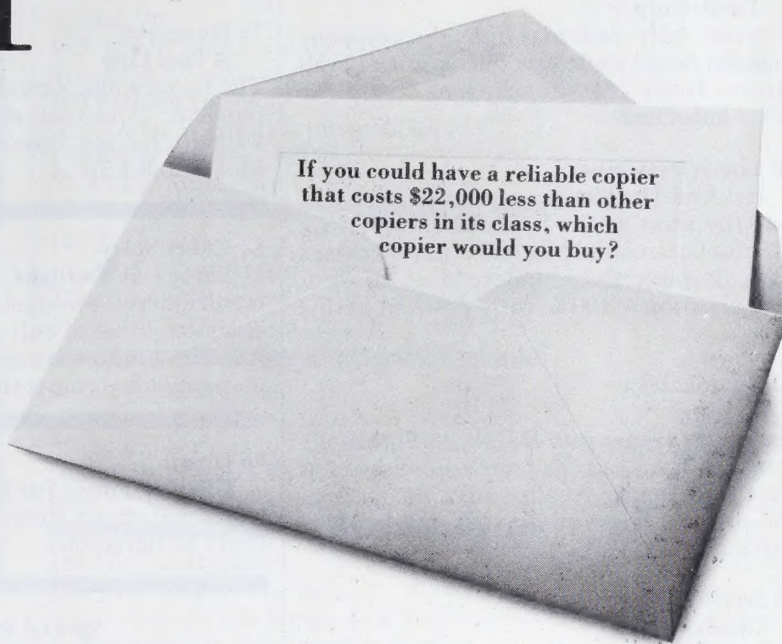
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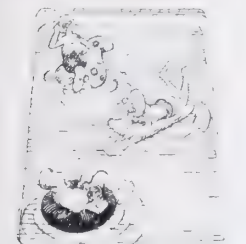
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Illustrations:

6, 41, 84, 85, 86, 90, 170, 174, Chas. B. Slackman; 97 top, 84 top, 101, Richard Sparks; 84, 85, 86, 90, 92, Bob Conrad; 144 William Bevington; 156, Seymour Chwast; 161, Tim Lewis

Cover Illustration: Chas. B. Slackman

Forbes (ISSN 0015 6914) is published biweekly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription \$36 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011. Copyright © 1983 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office

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Socialist virtue

"The ultimate chastity belt." That's the title of an article that starts on page 76 of this issue, but, no, we're not getting into sexology. The title was prompted by a Hungarian businessman's description of his nation's dilemma. To prosper, Hungary must move toward capitalism; but to keep Soviet tanks away from Budapest, it must maintain the facade of socialist respectability. In that sense the Soviet tanks are socialism's ultimate chastity belt, and so the Hungarians seem doomed to frustration, reports our Lawrence Minard. If America's recent economic troubles have made you lose faith in unfettered free enterprise, read this article—and cheer up.



Chariots of fire

The article on Hungary is part of the look at international business that highlights this issue. Lawrence Minard—who has certainly worked overtime lately—has also contributed an impressionistic essay on Europe's deteriorating competitive position in the world economy, "Can Europe catch up?" which begins on page 84. Glance again at the cover; it summarizes the story. It is Minard's view—and ours—that social attitudes, national characteristics and historical trends are what count in these matters, and he tells why he's skeptical of Europe's chances of catching up with the U.S. and Japan.

Department of Statistical Absurdities

We've never hesitated to chide our worthy competitor *Fortune* when it was off base, so it's only fair we concede as gracefully as possible when *Fortune* does the same to us. In this space in our June 6 issue I remarked that early investors in Transiron stock had lost 300% of their potential purchasing power over 23 years, and in his lively *Fortune* column, "Keeping Up," Dan Seligman responded that there is no way in the logical universe to lose more than 100% of an investment. You can split hairs about that: With a margin call or an unsuccessful short sale you can indeed lose more than 100% of your original stake. But in this particular case, *Fortune* is right and we were wrong. Transiron investors, like the rest of us, cannot lose more than 100% of their potential purchasing power and, in fact, lost 95%. How the absurdity was perpetrated is a long story. Suffice it to say we did it. Ouch.

James W. Michaels
Editor

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Clean bill for Teamsters

When the eight new trustees of the Teamsters' Central States Pension Fund tapped Kansas City banker George Lehr to run that scandal-riddled organization in October 1981, assets available for benefits stood at \$3.3 billion. This spring, that figure had risen to \$4.7 billion and, in Lehr's words, a "new day" had dawned. "I'd like to say I did it," Lehr laughs, "but the stock market helped a lot." So did Equitable Life Assurance, which has managed the assets since 1977 by order of the Labor Department. (Another factor, of course, is the \$600 million the fund gets each year from 500,000 Teamster members and 13,000 employers in 40 states.) Most important, relations with Washington have become a "situation of normalcy," Lehr says. Lawyer Allen Dorfman, once the fund's alleged conduit to the underworld, was in receivership even before his murder in a Chicago parking lot. Two consent decrees (one already court-approved) have brought lasting peace and ended the Justice Department's long cleanup drive against the Teamsters' fund. Lehr gives full credit to his board. "The trustees were the key," he says. "The fund is as good as its trustees." Lehr's "new day" could include a new asset manager, too. Aided by Wall Streeter George Gould, he is now reviewing ten potential asset managers for the fund (including Equitable) and expects to make a choice in August.

Bye-bye, big bag

The bulging briefcase, traditional hallmark of the outside auditor, is being streamlined. Instead, CPAs are starting to arrive for their annual checkups with slim cases housing mi-

crocomputers. Last October, Peat, Marwick, Mitchell introduced its version, a computer system called "Sea-Cas," an acronym for its jawbreaking title, Systems Evaluation Approach-Computerized Audit Support. Hardware for the new system, according to partner Jack Collins, has been distributed to all the firm's U.S. offices and 95% of its overseas operations. In all, Collins says, 500 SeaCas computers are working now. SeaCas, Collins explains, can operate by giving computer-to-computer access to a client's bookkeeping, but it works equally well with computerless customers. After a day's workout on the PMM microcomputer, he says, an auditor can use it to generate the conventional working papers, strike trial balances and analyze and evaluate a client's own internal accounting controls.

The measure of a man

Despite all the emphasis on improving productivity for both workers and managers, how do corporations go about measuring the effectiveness of the men and women on their payrolls? A survey of 1,300 top manufacturing and service companies by Drake Beam Morin, the New York-based human resource consultants, shows that many are still operating on Stone Age principles. More than 88% of layoffs, for instance, are based on seniority, not on performance. Fewer than half (44%) consider the guidelines laid down by federal legislation in judging employee performance. This despite the fact that, as Drake Beam Morin notes, government demands are increasing for formally documented and legally sound measurements of work behavior. The survey (based on 265 responses) discovered that a significant share of corpo-

rations (29%) had no formal appraisal system at all for blue collar workers, although all but 3% did employ yardsticks to judge their managers.

Fat, fatter, fattest

A fledgling magazine in a fledging industry has set a record as the fattest publication in consumer publishing history. The book, launched in February 1982, is *PC*, published monthly by Ziff-Davis for an audience of users of IBM personal computers. Its new issue runs to a desk-bending 642 pages, outweighing by 22 pages the previous record set by *Vogue* in September 1981.

Yuk-yuks, robot-style

If you thought supermarkets were a chore and a bore now, just wait. A California company called Robot Entertainers, Inc. wants to install mechanical "stand-up comics" in the marts, prepared, in the manufacturer's terms, to "chat with unsuspecting people, slaughtering them with puns." In addition to these on-slaughts, customers will be subjected to computer-voiced commercials plugging the day's specials. Cost to the retailer will run about \$300 a week, and Robot Entertainers is talking about producing 10,000 of the devices during 1983.

Hold that merger

Antitrust honchos in Washington may think business mergers are good for you, but not everyone agrees. One dissident is Warner Woodworth, a professor of organizational behavior at Brigham Young University, who says that "although a company may realize some short-term profits, the price paid . . . often has devastating consequences for workers and even the parent company itself." Contrary to general belief, he argues, mergers do not create new jobs, save faltering companies or put new energy into the economy. Between 1969 and 1976, he says, U.S. employment rose by more than 9.5 million jobs, but the 1,000 biggest companies contributed less than 1% to that figure. According to data he has compiled, conglomerates eliminated 2.3 jobs for every 1 they created and shut down 2 enterprises for every 1 they opened. To correct this, Woodworth wants new legislation to "facilitate a company's right to self-preservation through stock ownership while at the same time making



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Trends

it more difficult for hostile mergers to succeed." A merger, he concludes, should have to mark time before completion to allow workers a chance to buy the company, to set up an employee stock ownership plan or to assemble a financial package to negotiate a buyout.

Them that has, gets

While the rest of the world is trying to stem the tide of inflationary imports, Japan's outbound shipments are gaining momentum. This year Japan's current account surplus of exports over imports seems likely to reach \$20 billion, compared with \$6.9 billion in 1982, according to Chemical Bank's researchers. Japanese exports, the bank says, will go up by 15%, while imports will increase 5%. Moreover, the bank adds, Tokyo has just about eliminated inflation, and wage increases this spring probably averaged 4.4%, against 7% last year.

Sturm und Drang

West Germany's home video industry says only 12% of its wares are erotic flicks, but 45% of the 4,000 titles available fall into the "horror, war action" field. One in ten of West Germany's 22 million households owns a video player, and 1.4 million more machine sales are expected this year.

Here they come again

Motor scooters, those minimotor-bikes with floorboards, have been popular in Europe since Italy's Vespa introduced them a generation ago. They are good for city maneuvering, but motorcycles hold the edge on the highway, and scooters have never caught on in the U.S. Vespa sells only 1,500 models a year here, and Vespa President Guido Foggini says, "We've even given thought to forgetting the whole thing." But the Japanese apparently hope to create a big American market. Honda and Yamaha are bringing over their first motor scooters, and the latter figures there may be a demand for 17,000 a year in the U.S., at prices of \$700 to \$1,400. Vespa's Foggini is skeptical. If the Japanese are trying to replace the moped, a bicycle-like vehicle hot during the gas crunch, he says, they are in for a surprise. Mopeds had perhaps 300,000 unit sales in 1979, but that has fallen to 20,000 a year. The Japanese are also pushing into the heavy diesel truck

market in the U.S. Within a year, Hino Motors, Japan's biggest heavy-truck maker (which is 10% Toyota-owned) will introduce three midsize models. Hino plans to make 800 trucks in Florida in 1985 and 5,000 a year after 1986.

Two-track railroads?

With railroad rights-of-way becoming invaluable as lines streamline and shrink their systems, the time may be here to restructure the industry, according to New York rail consultant Isabel H. Benham. Her concept, outlined to a women's transportation seminar in Philadelphia, would split the rail corporate structure, with one company owning the roadbeds and others owning and running the trains. The idea, she says, has been discussed for years by railroad thinkers, but in her judgment, nothing will happen until the financial community gets entrepreneurs and investors interested. A railroad, Benham points out, is



Synergy for the railroads: one owner for the tracks, one for the trains.

rigidly confined to its track network, and entering a new market means a huge capital outlay. (CN&W spent more than \$400 million to get into Burlington's Powder River coalfields.) With a separate company owning and charging for the tracks, new markets would be there for the taking. Not

only railroads but companies in the grain, auto or paper industries could buy their own trains and pay for track use; ditto for foreign shippers using sea-land systems. Another plus, Benham says, would be to encourage communications systems, coal-slurry pipelines and others to pay to put their systems along rail rights-of-way, something she says that "formerly was given little consideration as a moneymaking asset."

The executive suite

If you think all chief executive officers have top-floor corner offices with a view, you are not far off. According to a new survey of 143 CEOs by the American Society of Interior Design, 75% have offices with a view, 73% on a corner and 61% on the top floor—but only 59% have the largest offices in their companies. Some 72% of the CEOs use paneling or fabric wallpaper; 62% boast private washrooms; 51% have separate offices for their secretaries; and 45%, private adjoining waiting rooms. Executives are also going in for the personal touch these days: 67% have original artwork, 36% have custom-built furnishings, 25% own antiques and 51% have custom or oriental carpets. But only 11% have computer terminals. Also less popular are private dining rooms (13%), wet bars (12%), working fireplaces (6%), exercise areas (4%), conference tables as desks (12%), photographs of the famous on the walls (13%) and exhibits of awards, diplomas and prizes (26%).

Old school ties

The champion fundraiser among the country's prep schools last year was a long way from the Ivy League. New Mexico's Albuquerque Academy raised more than \$23 million, mostly from the sale of land, according to the National Association of Independent Schools in Boston. That was triple the take for the number two hat-passer, Phillips Exeter of New Hampshire. (Money is only one of Albuquerque's claims to fame; last summer its 66-year-old president, Ashby Harper, became the oldest person to swim the English Channel.) Other schools in the top ten: Hotchkiss, Taft and Choate Rosemary Hall, all in Connecticut; Phillips Andover in Massachusetts; two Texas preps, Hockaday and Kincaid; Culver in Indiana; and Holland Hall in Oklahoma. Overall, average voluntary gifts to the schools surveyed were up 8.3%.



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Just because you're packing light, you needn't cast your fate to the wind.

BankAmerica Travelers Cheques. World Money.*

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"It sure costs a lot to keep a kid in college.

How do you turn savings into enough for tuition? We're starting to make it happen, through Total Financial Planning. Our Prudential-Bache Account Executive helped us set up a special trust that lets us accumulate income at a lower tax rate. We invested the principal in mutual funds and zero coupon bonds. We've got a strategy, and it's working."

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Half! We had to find a way to lessen the tax bite, and make the most of what we had left. What's helping us do it is Total Financial Planning from Prudential-Bache. The best plan for us puts our investments into real estate, oil, gas and utilities with a dividend reinvestment plan... where taxes won't bite into our income."



"I'm so busy running my business... I never have time for a plan that puts my profits to work.

Now I've got a sensible strategy through Total Financial Planning. My Prudential-Bache Account Executive recommended growth stocks, a managed commodity account, risk arbitrage... even ways to gain tax savings through insurance."

"We never thought we'd have enough for the retirement we deserve.

Taxes and inflation were eating up most of what we were earning. Now we're building a cushion for retirement... through Total Financial Planning from Prudential-Bache. For us... that means a tax-deferred annuity, discount municipal bonds that lock in high interest, and blue chip stocks as an inflation hedge."

Total Financial Planning. Today, everybody needs it.

Once upon a time...
You could get ahead just by
working hard and saving your money.
Today, it's a lot more complicated.
Now, whether you earn \$50,000 or
\$150,000, you need a long-term strategy
that properly places your investment
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and inflation...and still provides for
mortgage payments, college tuitions,
insurance, investments, and retirement.

At Prudential-Bache Securities,
we call it Total Financial Planning.
It's the discipline we live by.

Total Financial Planning involves
careful assessment of your financial
situation, and the assembling of a
personal financial profile. Both help
form the basis of a strategy to meet
your financial objectives.

Everybody's financial situations
and goals vary. By offering more than
one hundred investment alternatives,
Prudential-Bache is in a unique position
to build a program tailored to your own
special requirements.

Your Total Financial Planning
program might well include stocks
and bonds, options, municipals and
money market funds...among a variety
of investment opportunities. Or your
financial position may require

diversification into tax shelters, private
placements, commodities, annuities,
estate and retirement plans.

Prudential-Bache Account Executives
are the catalysts behind the considered
process of Total Financial Planning.
They have the experience to help you
make critical financial decisions.
And they'll help you meet your
changing needs through a continuing
relationship. The more we know about you,
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Total Financial Planning.
It replaces the panic button with
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It's the discipline needed to
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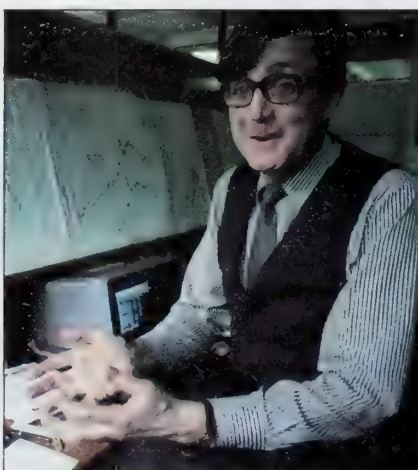
Follow-Through

Murphy's Law redux

London gold analyst Christopher Murphy told FORBES in March 1982 that there could soon be a once-in-a-decade chance to buy gold (Mar. 29, 1982). He based that on an esoteric formula which rests on the "Eurocurrency-gold parity," or the ratio of outstanding Eurocurrency to gold reserves held by the West's commercial and central banks and the International Monetary Fund. (Eurocurrency is defined as bank deposits made anywhere in the world in currencies of nations outside the one where the bank is operating: for example, deutsche marks on deposit in London.) At \$345 an ounce, gold was selling last March at a 33% discount from Murphy's \$515 "parity" price, and his gold law was close to screaming, "Buy!" Murphy himself was planning to buy when gold hit the \$320-to-\$330-per-ounce range. That came in May, and investors who bought then and sold when gold topped \$500 (and

\$400-plus level.

But now the chance is gone. "This is not the time to be in gold," Murphy thinks. He doubts Western economies will soon see high inflation again. Moreover, he says, "while everyone else has worried about the growth of the U.S. money supply, I've been worried about the reverse—the slowdown in Eurocurrency." After booming along at a compound annual rate of 26% through the Seventies, Eurocurrency growth has slowed to 3% to 4% a year. A further drop in the \$29-per-barrel crude oil price (to \$24, say) could also knock as much as \$100 from the price of gold, Murphy says. His model suggests there will still be buying opportunities if gold slips below \$400 per ounce, but Murphy sees no chance of a return this century to the heady \$850-per-ounce of 1980. "It's unnatural to have more than one major resource boom in a generation," he observes, adding, "I'd prefer to be on Wall Street."



Gold buff Christopher Murphy
"I'd prefer to be on Wall Street."

approached Murphy's "parity") in February 1983 would have picked up capital gains of 54%.

Few laws, of course, are cast in iron (or in gold, for that matter), and investors would have done even better if they had waited until June 1982, when gold was nearer \$297 an ounce—its low for the year, but a level that Murphy's model didn't predict. In fact, when gold hit bottom last year, Murphy was already busy refining his model to take into account fluctuating interest rates, inflation and oil prices. His new recipe, he says, accurately predicted the market's most recent turn, from a February high of \$511 per ounce to the current

The fall of the HBO Kid

Just a few months ago 23-year-old Frank Cardamone, perhaps the most successful cable television pirate in the nation, was tooling down Scranton, Penna. streets in a Corvette sporting the license plate "HBO-KID." Prosecuting cable piracy, viewed as only marginally illegal by millions of Americans (FORBES, Dec. 7, 1981), is still in its infancy. But State Attorney General LeRoy Zimmerman's investigation into the HBO Kid uncovered a ring that supplied 2,700 cable customers in northeastern Pennsylvania with convertors to unscramble signals of pay-TV channels like Home Box Office. Cardamone was arrested and other arrests are pending that could make it the biggest cable piracy bust so far. The households involved are thought to have deprived five local operators of \$2 million over the past five years.

Customers are said to have paid Cardamone about \$100 for "free" pay-TV, a fee that included a convertor and often a workman to drill through filter "traps" on telephone poles. The HBO Kid (he used the name on his business cards, too) was a TV repairman whose growing company even made service calls. Happy homeowners kept the lid on the Kid's cottage industry for years. Authorities, though boasting they used sophisticated electronic surveillance to crack the ring, actually found out about

JUST BECAUSE YOU CAN BUY A TRUCK, DOESN'T MEAN YOU CAN AFFORD A TRUCK.

The \$20,000 purchase price for an intra-city straight truck, or the \$70,000 purchase price for an over-the-road tractor, is just the beginning. And not a very good beginning, when you consider that you're spending money on an asset that does not make you money.

You have to license that truck. Paint it with your colors and your logo. Wash it, touch it up. Small stuff.

Let's get to the big stuff. You have to maintain it. If you have your own shop, you pay for parts and equipment. You pay for mechanics and supervisors. You pay for insurance. You pay for management time. You pay for repairs and road service (and the cost of service away from home can be horrendous).

You pay for accidents and investigations of accidents. You pay for driver complaints and idle driver time. And you pay for dozens of other things that go wrong.

If you don't have your own shop, you pay all those costs plus the cost of having your trucks fixed on somebody else's schedule.

Where does Ryder Truck

Leasing come in? Doesn't Ryder have the same costs?

No. Ryder runs over 60,000 vehicles. Trucks are our business. Not many companies in this world can buy parts, tires and lubricants as efficiently as Ryder can. Not many companies know how to run and maintain them the way we do.

With a system of preventive maintenance that is unequalled by anybody in the business. For our lease customers, it adds up to a more reliable delivery system, preserving capital and reducing costs.

Ask yourself: do you really own trucks, or do your trucks own you? Call your nearest Ryder District Office, or mail this coupon now, and let's talk about a better way.

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locked into ownership. Let's talk.

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TRADE EVENTS SEPTEMBER-DECEMBER 1983

SEPTEMBER

september 1-4

AUTUMN MACEF '83 - International exhibition of household articles, glassware, ceramics, gift articles, silverware, goldware, precious stones, semi-precious stones, hardware and tools

september 2-4

SUMMER MIAS '83 - International market of sport articles and camping equipment

ANTEPRIMA - IDEAMAGLIA - Women's collections - International knitwear exhibition

INTIMO DOMANI - Underware collections

AQUARIUM - Collections for the sea

september 10-15

8th EUROLUCE - International lighting exhibition

23rd Italian Furniture exhibition

EIMU - International exhibition of office furniture

SMAU '83 - International exhibition for the office: informatics, telematics and communications systems, machines and furnishing for the office

september 30 - october 4

MODIT - International exhibition for women's fashion collections

MILANOVENDEMODA 29 - Bride Italy

OCTOBER

october 2-6

MILANO COLLEZIONI - Presentation of spring-summer collections '84

october 10-19

ITMA - 9th international exhibition of textile machinery

october 26 - november 7

48th MIFED - International film, TVfilm and documentary market

october 29-31

12th INTERSAN - International exhibition of technical and sanitary orthopaedics, sanitary articles, surgical instruments, hospital equipment, physioelectromedical appliances, corsets and sanitary articles for early childhood

NOVEMBER

november 3-7

44th MIPEL - Italian leather goods market (international exhibition)

november 4-8

EXPO COMMERCIO '83 - 18th International exhibition of commerce equipment

EXPO TURISMO '83 - 18th International exhibition of equipment for tourist and receptive activities

SIRC '83 - 8th Italian exhibition for collective restoration

10th International exhibition of confectionery and ice-cream products

EBE - 13th European drinks exhibition

SIPRAL - 13th Exhibition of food products

EURONATURA - 3rd SANE - Exhibition of herbosstry, natural food and beauty culture

november 12-14

BEAUTYSHOW - 5th Exhibition and conference of hair-style, beauty, perfumery

november 18-22

3rd SFORTEC - Exhibition of technical sub-supplies (International exhibition)

november 22-26

MAC '83 - 23rd International exhibition of equipment and appliances for the chemical industries and for laboratory research, analysis and tests

november 22-27

SIMEI - 11th International wine & bottling machinery exhibition

november 23-29

48th International exhibition of cycles and motorcycles

november 26 - december 4

LA MIA CASA - 14th Furnishing exhibition

DECEMBER

december 1-5

6th International exhibition of "DO IT YOURSELF"

december 6-9

ESMA-EUROTICOT - European knitwear exhibition

december 8-12

EXPO DETERGO '83 - Exhibition of equipment, services, products, and accessories for laundry, dry-cleaning, ironing textiles, cleaning, and allied wares in general

Follow-Through

Cardamone from a customer who offered to expose him in return for a free installation.

Cardamone faces 14 years in jail and a \$30,000 fine on two counts of theft and one of conspiracy. As usual, operators are trying not to prosecute the homeowners, preferring to sign them up for pay services previously pirated. "Most of these people probably didn't recognize themselves as criminals," says Zimmerman.

In a related development at Time Inc., HBO will begin scrambling its satellite signals this fall, thus depriving satellite dish owners of free service. "This is the most significant development in antipiracy thus far," says HBO attorney Tom Woodbury. "Showtime says they'll do the same, and I expect the other pay services to follow suit." So watch for a boom in satellite descramblers.

Grudge fight

A year and a half ago Pengo Industries' chief executive, Harrold Owen, was on an acquisition binge, aiming to build his \$182 million (sales) oilfield services company into a \$1 billion supermarket (FORBES, Jan. 18, 1982). It didn't work. Pengo reported an after-tax loss of \$32.8 million on sales of \$29 million in the three months ended Mar. 31, and its net worth sank to a negative \$7.8 million.

Owen had spent \$83 million buying 26 companies by the end of 1981 when FORBES asked him, what's the rush? "I can't stand people who hold a grudge," he replied, "but I wouldn't be human if I didn't want to surpass the other company." The "other" company was Gearhart Industries, the oil service outfit run by Owen's onetime friend Marvin Gearhart. The two founded Gearhart-Owen Industries in 1955, and Owen, now 59, was left with the less lucrative ends of that business after a bitter parting in 1978.

"Pengo was just an accident waiting to happen. Harrold was expanding so fast there were drafting tables out in the halls," one Wall Street analyst says. In May Pengo's \$188 million worth of creditors forced Owen out as chief executive (he remains chairman). The company is now run by a team of outside rescue artists, and Owen's stock, once worth \$5.8 million, has shrunk to \$530,000. "We were trying to predict in a falling market," he says now, "and none of us was smart enough to do it."

The Milan Fair Organization disclaims all responsibility for any changes in the dates announced as above.

Information: Fiera di Milano, Largo Domodossola 1, 20145 Milano (Italy)
tel. 345.32.51/2/3/4, cable Fieramil, telex 331360 EAFM I.

What to watch out for in bank money market advertising.

In very small print like this, the banks have told you that their "fantastic" interest rates are only for a few weeks—if that long. You should also watch out for the *, which often tells you there are some penalties or that you will have to pay for certain services.

Much of the recent Bank and Savings and Loan Association advertising seems to be predicated on two factors:

1. Most of you will overlook the fine print.

2. Many of you will believe that their Money Market Accounts are the same as a Money Market Mutual Fund.

If you read this, you might be much wiser.

Did you know that Bank/S&L Money Market Accounts require a minimum of \$2,500, and if you drop below that, you get only 5½% interest?

Did you know that you are prohibited from writing more than three checks a month?

Or, that if you withdraw your money even one day before the monthly calculation, you could lose that whole month's interest?

Or, that some banks discriminate—that is, pay higher interest to their preferred customers?

If you answered no to any of these questions, it's not surprising. They are the kind of facts that appear in the small print of Bank and S&L advertising.

And what's even more misleading is one word that appears all too often in large type, the word "Fund."

Don't be misled. Their Money Market Account is not a Money Market Mutual Fund. You should begin by understanding this difference.

A Money Market Mutual Fund pools your money with that of other investors to get high current returns. Your money is invested *only in the*

money market in high quality short term securities.

With a Fund, you are actually a shareholder. And you and the other shareholders receive *all of the income earned by the Funds*, less modest operat-

A SAMPLER OF THE OBSCURE

Presented here, unedited, are ten small print examples taken from Bank and S&L advertisements. With little effort, one could certainly add to the list and, at the same time, gain interesting experience in Caveat Emptor.

Minimum opening deposit \$5000.

*

Actual yield shown is obtained only if you were to invest for one year at the current rate. However, rate on this account cannot be guaranteed for longer than 30 days.

*

To realize this yield, principal and interest must remain on deposit at this rate for a full year.

*

Rates effective April 25, 1983 through May 2, 1983. Thereafter rates are set weekly.

*

Three checks to third parties, and three preauthorized transfers permitted per statement cycle.

*

*On days balance falls below \$2,500, interest earned will be 5¼%.

*

This offer may be revised or withdrawn without prior notice.

*

Rates are subject to change without notice.

*

*Interest rates change weekly.

*

(Rate changes weekly, on Tuesday)

ing expenses. A Money Market Fund must pay the same market rate to everyone and there is strict regulation by the U.S. Securities and Exchange Commission to make sure it does. Though Money Market Funds

are not insured, they have an outstanding record of safety. And even more important, Funds are now offering interest rates competitive with those of Banks and S&Ls.

Now with a Bank/S&L, you are not a shareholder; you've only got an account there. They can use your money any way they choose—even in making loans and investments that have nothing to do with the money market. What's more, a Bank or S&L can pay whatever rate it wants to and then keep for itself any profit it doesn't pay you. (That's why their interest rates have come down so much.)

There just is no guarantee that the interest a Bank or S&L pays you will be a true money market rate, or that you will receive *all* the income your money generates.

All aspects considered (including those hidden in fine print), many investors will find they're better off now in a Money Market Mutual Fund. You can check this out by comparing your local bank or S&L offer against that of a particular Fund or two. Just call any Fund and ask for its prospectus.

And just remember, for us in the Funds, the Money Market is not a sideline.

It's where we invest your money full time, every day.

AMERICA'S

MONEY MARKET MUTUAL FUNDS
The full-time professionals in the Money Market

More than a personal computer.

Now you can have powerful, multi-user word processing, accounting, financial planning and electronic mail for only \$3,390 per user.*

When it comes to making businesses more efficient, no computer gives you more than an ALTOS® 16-bit multi-user networking business computer system.

☑ **More Choices.** Easy to learn and use, Altos multi-user microcomputers are designed and priced for businesses of all types and sizes. From a one person operation to a large corporation.

☑ **More Solutions.** You can run more business software on an Altos multi-user microcomputer than any other computer in the world, including our own integrated accounting (with a self-paced, step-by-step, built-in tuto-

rial), word processing, financial planning and electronic mail applications. You can also choose from hundreds of other applications for attorneys, dentists, doctors, insurance agents, manufacturers, pharmacists, realtors and many more.

☑ **More Flexibility.** Altos systems are designed to grow as your business grows. You can start with a single user and add more users on the same system. Plus you can link hundreds together with a local network. And when you're ready, built-in features let you add more storage capacity and peripherals—even appointment scheduling and communications with mainframe computers.



☒ **More Reliability.** Recognized for their proven reliability, Altos multi-user microcomputers are the choice of business and computer professionals, including Fortune 1000 companies, computer service organizations, major software developers, and even large computer manufacturers.

☒ **More Service.** Altos backs its multi-user microcomputers with responsive, worldwide service and support from the Customer Service Division of TRW, Inc. in the U.S.).

☒ **More Value.** Once you've seen what an Altos multi-user microcomputer can do for your business, and the price it can do it for, you'll agree there's no greater computer value.

☒ **More Information?** So if your business or profession demands more than a personal computer can deliver, look to Altos. Call, write or clip the coupon today for a free brochure and the name of your local Altos representative.



Packed with more value for business

☐ Please tell me more about the hundreds of uses for an Altos multi-user business computer system.

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☐ Please have an Altos representative contact me.

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FB-7

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800-538-7872
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Complete five user Altos system for \$3,390 per user or \$16,950. Price approximate and may vary in your area. Packaged system includes an Altos 586-10 hard disk (t. 8086-based) computer with the XENIX™ operating system with the Altos "Business Command Menu Interface," five terminals, and the ALTOS ACCOUNTANT (the built-in ALTOS COMPUTER TUTOR), ALTOS EXECUTIVE WORD PROCESSOR, ALTOS EXECUTIVE FINANCIAL PLANNER, and ALTOS ELECTRONIC MAIL application. Price does not include printer, communications and networking hardware options, cables, installation, taxes, additional training and maintenance.

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AT LAST. SOMETHING FOR THE FEW.

The ultimate recognition from your banker. A gold MasterCard card.

Readers Say

Defense budget defense

SIR: In your Fact and Comment, "Re 'Staying The Course,' For Sure Cap Will" (May 23), it was very good of you to include a few nice comments, and so unusual, that I thought I should write you.

I have not been "persuaded by all that Braid that everything they have asked for is essential." We have cancelled or severely cut back 122 programs desired by the "Braid."

I cannot agree with the assumption that cutting the Defense budget has all that much effect on reducing the deficit. If we cut the Defense budget by \$1, it only reduces the deficit by about 50 cents, because of the loss of revenue generated by Defense spending and the loss of jobs, which in turn requires more unemployment compensation, etc., etc.

The President has already cut more than \$66 billion of the \$116 billion expansion of the Defense budget that he felt it necessary to make in March 1981. I cannot conscientiously recommend more cuts. We have so much to do to regain the credibility of our deterrent, a lot of which was lost in the 1970s when Defense spending was cut by 19.6% in real terms while entitlements were rising 122%.

—Caspar Weinberger
Secretary of Defense
Washington, D.C.

SIR: A concerned Secretary of Defense should closely read the Heritage Foundation report *Agenda '83*. This conservative think tank analyzes our Department of Defense and its spending propensities and states: "Our Defense Department has stagnated. It now soaks up even sizable funding increases with negligible results."

—Gerald Goodman
Albuquerque, N.M.

Dynamic economy

SIR: Peter Drucker's article on Schumpeter and Keynes (May 23) is the best article on economics that I have read. I am in total agreement with Schumpeter's thesis that there are no permanent answers because the central problem of economics is structural change. It is vital that we gear our policies to dynamics rather than equilibrium.

I am in strong disagreement with Schumpeter's conclusion of the inevitable decline of capitalism.

It strikes me that the acceptance of his ideas will mean that we can continue to effectively adjust to changing conditions.

—Frederick H. Schultz
Jacksonville, Fla.

Mr. Schultz served as vice chairman of the Federal Reserve Board from 1979 to 1982.—ED.

SIR: I found the article absolutely thrilling, one of the very few thrills I've ever experienced reading a business publication.

—Michael D. Tatum
Dallas, Tex.

Whoa!

SIR: Apropos the inverted "Y" architecture you described in *FORBES* (Fact and Comment, May 9). How do you like this from Czechoslovakia?

—Frederick J. Herr Jr.
Wilmington, Del.



Overlook deterrence

SIR: Re "The Bishops Bomb Out" (Fact and Comment, June 6). Too bad that the Catholic Church and the bishops do not see nuclear bombs as a deterrent to war. Only if Russia, or any nation, is so overpowering that it need not fear instant retaliation, will it start a nuclear war.

—William G. Kablert
St. Paul, Minn.

We didn't sell 'em

SIR: You err in stating (Feb. 28) that the Erie Trustees in 1976 sold \$200 million in tax losses for \$5 million. The tax losses had in fact been "sold" in 1968, before Erie filed in bankruptcy, as part of the terms of an Interstate Commerce Commission-approved in-

clusion of Erie in the Norfolk & Western Railway System. After their appointment in 1972, the Erie Trustees nevertheless sued to terminate N&W's use of Erie's tax losses, but the courts ruled against Erie. In 1976 the litigation was settled and Erie received \$5.5 million in cash, in addition to other benefits.

—Thomas F. Patton

Ralph S. Tyler Jr.

Former Trustees of the Property of Erie
Lackawanna Railway Company
Cleveland, Ohio

Coverage needed

SIR: You couldn't be righter when you speak of the need to provide health insurance for the jobless (Fact and Comment, June 6). We're working toward that goal. Administration effort would help.

—Richard A. Gephardt
House of Representatives
Washington, D.C.

They do agree

SIR: I was mildly surprised to see the Editor-in-Chief say that he didn't agree with the editorial on page 31 (Fact and Comment, June 6). I read page 31 with my thoughts already bemoaning this younger generation. I was pleasantly surprised.

Sorry, Pop. I agree with the Deputy Editor-in-Chief.

—R.W. Baird Jr.
Phoenix, Ariz.

SIR: Malcolm S. Forbes represented a marked improvement over his father. I am pleased to report that I feel the same way about M.S. Forbes Jr.

—Max Morrison
Publisher,
Lakewood News
Houston, Tex.

SIR: I happen to agree with Steve's editorial 100%, but even if I didn't I would still be embarrassed by the spectacle of a father publicly pouring cold water on a son's best efforts.

Keep it up and you may spend your old age wondering why your son left the family business.

—J.O. Fletcher
Amherst, N.Y.

Leave the family business and earn an honest living? Not a chance!—MSF JR.



“USE OUR GROUP MEDICAL PLAN TO BOOST CASH FLOW? YOU’RE KIDDING.”

Just when many medical plans are raising premiums, New York Life has an idea that may reduce your costs and improve cash flow.

It’s our Minimum Premium Plan—a plan that combines many of the best features of a fully insured contract and a self-funded arrangement.

Your company assumes direct responsibility for a portion of your medical care benefits each month up to an annual limit. New York Life assumes responsibility for benefits in excess of this limit.

Because normal claims reserves may not be required, your cash flow could be improved. In addition, lower-than-expected claims mean immediate cash savings.

We also provide full actuarial and administrative services, including a computerized claims system whose speed and accuracy help cut costs and minimize employee complaints.

For all the details, ask your local New York Life Group Representative.



**NEW
YORK
LIFE**

“ASK ME.”

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

IF RUSSIA GETS SYRIA OUT OF LEBANON

and finds a way to get itself out of Afghanistan, what an extraordinary impact that could have—

- A new era of mutual understanding and peaceful coexistence between the United States and the U.S.S.R. could soon follow.
- A balanced rational cap to atomic weapons could

more likely be achieved.

- Worldwide economic recovery could set in, sooner and stronger, spurred by renewed consumer demand that lessened arms spending would spark.

For such to happen, a miracle isn't required.

Common sense at the summit level is.

FORECASTS THAT CONSUMER SPENDING RECOVERY

will be wishy-washy won't turn out to hold water.

IN COMMENTS AS SILLY AS HIS USE OF THE ALIAS

"senior Administration official," Treasury Secretary Don Regan urged the Federal Reserve to tighten credit because "I think most people in the Fed would agree that [there] is too much money supply growth."

Promptly, of course, interest rates rose. And that, if long sustained and not swiftly reversed, is almost the only

thing that could rout our recovering economy.

Advocating such a course to the Federal Reserve because of a foreseen bulge of not long duration in the money supply is so counterproductive that it has to be the reason our "senior Administration official" insisted that he not be identified.

EXACTLY THE SAME FEELINGS THAT GAVE MAGGIE HER BIG WIN

are what will give Reagan his.

WILLIAMSBURG SUMMIT—SCORE ANOTHER ONE FOR REAGAN

A big one.

Right up until it took place most pundits were predicting a messy, cantankerous session with the other six Summits (Britain's Thatcher, France's Mitterrand, Canada's Trudeau, West Germany's Kohl, Japan's Nakasone and

Italy's Fanfani) planning to pluck at various U.S. policies.

Instead, the President not only smoothed their feathers but won—in various degrees—support for the U.S. stand on the issues most in contention.

Everyone came away impressed.

OF GREATEST CONSEQUENCE IS THE WILLIAMSBURG SEVEN'S

agreement on the subject of arms negotiations with Russia:

- President Reagan will make most clear that the U.S. earnestly seeks agreement.
- But if none can be reached concerning equal limits on

medium-range atomic weapons, our European allies will proceed on schedule with the placing of Pershing and cruise missiles in Western Europe.

The President no longer seems to be the only one aware that right now, every single day, the Soviets are adding

three nuclear warheads to their arsenal. This solid backing the President produced at Williamsburg makes hardheaded realistic negotiations with the U.S.S.R. much more possible—even probable.

Before Williamsburg, the Soviets thought that, by seed-

ing in NATO countries massive, misguided marches against U.S. missiles, they could politically knock down our efforts at equalizing atomic capabilities.

The U.S.S.R. now knows that it is negotiating with a determined and unhandcuffed U.S.

CURMUDGEONS ARE GREAT IF YOU'RE NOT IN THEIR WAY

A friend was telling us of his experience as a passenger in the car of a very old Old-Family patriarch in Baltimore:

"It was the scariest ride that I have ever had. The old gentleman insisted on taking me for a tour of historic Baltimore. Time and again we proceeded the wrong way

down one-way streets, apparently depending solely on his glare to make the oncoming cars pull over, stop or back up. To my tremulously queried, 'Why', our curmudgeon snapped, 'That's the way these streets ran when I was a boy.' "

MOVIES

● **Angelo, My Love**—Angelo's really a refreshing delight. So's his mother. So's the villain. Inevitable self-consciousness of nonprofessionals on camera shows, but somehow it doesn't detract too much. The length, though, is a bit much. ● **Breathless**—Erudite critics are in a snit because this "Breathless" isn't the old "Breathless." So what?

Valerie's poutfully sexy and Gere personifies the low-life stud. It's fast, fast, man. ● **Doctor Detroit**—After 40 minutes without a single laugh, we left. ● **Tender Mercies** is a tender, moving movie. Kid actors are seldom good, but this one is great. So's the photography. So's the rest of the cast. So, go.

DELIGHTFUL

The other evening, Mrs. Douglas MacArthur was asked if she had seen Gregory Peck play the part of MacArthur in the movie *MacArthur*. Said the General's widow: "I've great

admiration for Mr. Peck but, having seen General MacArthur playing General MacArthur, I didn't think it was necessary to see Mr. Peck playing General MacArthur."

RESTAURANTS—GO, CONSIDER, STOP

● **Bistro Bordeaux**—407 Eighth Ave. (Tel: 594-6305). Cater-cornered from Madison Square Garden, this unpretentiously priced, genuinely French bistro is better than most of the many restaurants satelliting Lincoln Center. Whether it's au poivre, vinaigrette or Lyonnaise, the flavor's full.

● **The Water Club**—500 East 30th St. (Tel: 683-3333). This cavernously large dining barge, moored in the East River, is the result of an effort over several years to bring to Manhattan a counterpart to the very successful River Cafe, afloat under the Brooklyn side of that Bridge. Neither the view of Brooklyn from 30th Street, nor the eager but experienceless help, nor the food is up to the progenitor's.

● **Buffalo Roadhouse**—87 Seventh Ave. South at Barrow St. (Tel: 243-8000). This is one of only two among the several Greenwich Village outdoor restaurants where the food and drink are almost as attractive as the setting. The nearby blocks of Sixth and Seventh avenues are New York's counterpart to St. Germain. The mostly-in-pairs sippers and supperers are unisex, Village chic-clothed, while the lively passing parade of Holland Tunnel-bound traffic and no-one-knows-where-bound strollers make eating at the Roadhouse more fun, more interesting than most of New York theater.

● **Trader Vic's**—Fifth Ave. & 59th St. (Tel: 355-5185). The most Vesuvian drinks in restauranting. The dishes are

as mixed as the Pacific races themselves—Polynesian, Hawaiian, Chinese, Japanese, Indonesian, et al. Polyglot Polynesian cuisine, you might say.

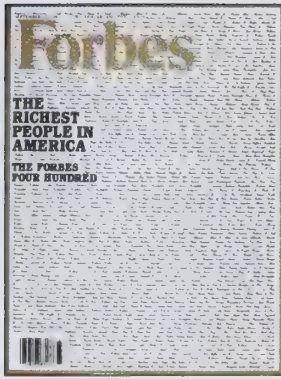
● **Huberts**—102 East 22nd St. (Tel: 673-3711). Many critics rave about this decorously attractive place, but here's a demur. The novel combinations of nouvelle fare mostly don't work, i.e., smoked chicken with liver, blue-cheese-stuffed chicken, orange-flavored mussel soup.

● **"21"**—21 West 52nd St. (Tel: 582-7200)—is still the only rival to the nation's foremost golf courses for the amount of business done on its turf. The fees for greens at "21" are on a par with the most exclusive fairways, too.

● **Acute Café**—110 West Broadway at Reade St. (Tel: 349-5566)—is in TriBeCa, south of socially soaring Soho, which has displaced tired-and-too-expensive Greenwich Village for the Arts Creatives and those trying to be. The striking, spaceful decor and the 3 a.m. closing, rather than the so-so food and service, account for its momentarily acute popularity.

● **Nirvana**—30 Central Park South (Tel: 752-0270). Despite an "exotic" decor that's unintentionally but inappropriately tacky, the Indo-Bengali dishes are as spectacular as the rooftop location overlooking Central Park. The puffed bread is as tasty as it is stunning. If you've never tried Bengali cuisine, you should, and here's closer than over there.

COVER UPS



That the cover of a magazine affects its newsstand sales is a given. FORBES' record newsstand sellout had on its cover, "The Richest People in America: The Forbes Four Hundred." *Time* magazine's best newsstand seller last year was its cover story on herpes.

I guess no one could print enough copies of a magazine that carried on its cover, "The Four Hundred Richest People Who Have Herpes."



TO MAKE A POINT, COCA-COLA CEO ROBERTO GOIZUETA

wrote us a note with this tongue-in-cheek comment: "I remember the story about the state legislator who was wrestling with the poor math grades high school students in his state were getting on the SATs. He came up with the solution, which was to propose a state law making pi an even 3.0. He reasoned that this would make mathematics more comprehensible to the students

and thus solve the problem of the low math grades."

By way of footnote, as one who flunked algebra and had to make it up in summer school, I think that state legislator has come up with an absolutely first-rate proposal—even if it ends the science of mathematics. If I were still in the New Jersey Legislature (circa 1952-58), I'd introduce a Bill!

IF THE DINNER CHECK'S DELAYED

try leaving.

THE MORE YOU EAT

the more you eat.

BOOKS

● **Minims**—by Tom Weller (Houghton Mifflin Co., \$2.95). "A minim is the opposite of a maxim." This is a delightful idea, but in this tiny volume of 54, all illustrated, only a few seem to me to be maximally minim-al. F'r'instance:

- The bigger they are, the harder they hit.
- A rolling stone gathers momentum.
- You catch more flies with honey than you care to.
- An apple a day makes 365 apples a year.
- It is better to remain childless than to father an orphan.
- The early worm gets eaten by a bird.



● **The Art Crowd**—by Sophy Burnham (David McKay Co., \$8.95). This embittered diatribe by an artist's wife and former assistant curator at the Smithsonian came out nine years ago, but I just got around to reading it.

Some comments are provocative, but the good points are buried by invective overkill. The one dealer she praises, Marlborough, has since been successfully sued for fraud by the heirs of famed artist Mark Rothko.

Excerpt: John B. Myers, a gallery owner, says, "Once a lady collector I know invited me up to look at her collection. They were all fakes. 'It must have taken some time to acquire them,' I said. What could I say? You have to be polite."



● **Erich Salomon**—(Aperture, Inc., \$8.95). The first to have his work dubbed "candid camera," this renowned 1920s-1930s photojournalist caught the world's stuffed-shirt Greats (and many Not So) in unposed, unpoised moments. These pictures inspired thousands of words.

British statesmen Stanley Baldwin, Ramsay MacDonald at press conference, 1931



● **Charles Demuth**—by Alvord L. Eiseman (Watson-Guptill, \$25). Charles Demuth raised the art of watercolor to new dimensions, bringing it a fresh eye, delicacy and technique. What he did with flowers and figures earned him a unique, great niche.



Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

NYC in 1982

Business depressions, Wall Street crashes, Communist upheavals and other disturbances will be a thing of the past by 1982, as, with the tens of thousands of brilliant young college graduates with which our Universities are blessing us, there will be no problem of either a financial, social or other nature that this esteemed young gentry will not have solved.

—Edwin Chase, *New York, The Wonder City*, 1932

Thatcher's Labor

A majority of Labor voters want to own their own homes; she gave them the right to buy their publicly built apartments. A majority are fed up with the unions, even if they belong to one; she promised tough new legislation. A majority are convinced that nationalized industries do not work; she has started to sell off what she could. A majority, finally, are old-fashioned patriots who would like to see Britain taken seriously around the world; she gave them a Falkland victory.

—R.W. Apple Jr., *New York Times*

It Doesn't Add Up

Half of all high school students in the U.S. do not study mathematics or science beyond the 10th grade.

Only one-third of America's 17,000 school districts require more than one year of mathematics or science for graduation.

Only one American student in 10 is studying physics; only one in 12 is studying calculus.

There is a severe shortage of qualified mathematics and science teachers in most schools.

Facts like these make it clear that America needs higher educational standards in science and mathematics, as well as in reading and writing skills.

—IBM

Showoffs on the Run

Running is in some ways classically Veblenian... highly conspicuous... wasteful. Although theoretically free, in practice it has become conspicuously expensive. The Adidas shoe, a glorified sneaker at fifty dollars or so a pair, suddenly became the outdoor equivalent of the Gucci loafer. A single company, Formfit Rogers, Inc., sold more than a million "running bras" at \$12 to \$15 each in the first half of 1979, when regular bras cost half as much.

—John Brooks, *Showing Off in America*

Audience, Ugh

Richard Burton made the shocking revelation that he's never acted in a play that "gave me a special pleasure." He said the role closest to his liking was the Roman warrior Coriolanus, because "his arrogance, his loathing of the mob, was myself." He said he had few regrets over leaving the British stage. "Have you ever

looked at a theater audience? The women with their tinted hair, their husbands who didn't want to be there in the first place." As for the many mediocre films he has appeared in, he said simply: "I did them to go somewhere to go in the morning."

—Amy Pagnozzi, *New York Post*

It's a great time to be in the [oil] business if you're not broke.

—J.P. Cullen, president, Plains Resources Inc. of Oklahoma City, *Wall Street Journal*

Talking Business...

with Robert M. Gardiner, CEO of Sears, Roebuck & Company's Dean Witter Financial Services Group:

Q. How can Sears improve the image of Dean Witter's investment banking operations among major corporate clients, while at the same time promoting the sale of stocks, as well as socks, in its stores?

A. People confuse the issue when they say "How serious is Sears?" rather than "How serious is Dean Witter?" Sears lets us run our business, and we are in the process of building a fine investment banking effort. You have to make the effort and we know what we've got to achieve in this area.

Q. What's your forecast for the stock market?

A. Very optimistic. On a longer-term basis, the market is going to be consistently higher than it is now. Our people would not be surprised if the Dow hit 1500 by the end of 1984. And interest rates will fall slightly in 1983, with the prime rate going down to about 9%. We're working our way out of this recession.

—Leonard Sloane, *New York Times*

Hooray for Urban Decay

I am not the type who wants to go back to the land; I am the type who wants to go back to the hotel. This state of affairs is at least partially due to the fact that nature and I have so little in common. We don't go to the same restaurants, laugh at the same jokes or, most significant, see the same people.

—Fran Lebowitz, *Social Studies*



"This year, instead of summer camp, I'd like to take a world cruise."



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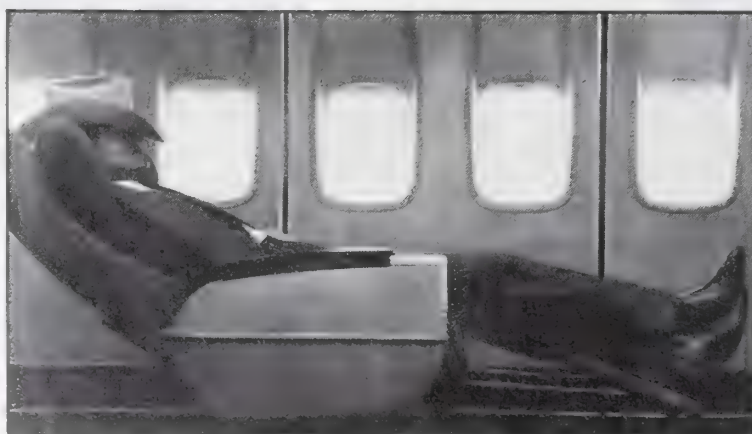
Back in 1936 Pan Am was the first and only airline flying the Pacific. And no other airline has caught up to us yet. We have more flights daily from more cities here at home to more cities across the Pacific. All you need is one airline, one ticket, one baggage claim.

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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief



THE FINANCIAL MARKETS HAVE BEEN SHAKEN

over the explosive growth in the money supply, especially the measure labeled M1. Investors fear that Administration officials and the Federal Reserve will react by tightening up on credit.

Though our policymakers don't realize it yet, those measures of money have become meaningless.

There is no sudden explosion in the supply of dollars. Inflation is not about to come roaring back—not for a while yet.

What is taking place is a shift of dollars from overseas to the U.S.

OPEC is running a big deficit now and, as a result, those countries are drawing down their so-called Eurodollar deposits, dollars deposited in banks outside the U.S. These greenbacks are finding their way into our domestic financial system. For reasons only an economist would treat seriously, most dollar deposits booked outside the U.S. are not counted as part of our money supply, although they're available at the push of a computer button.

As a Salomon Brothers report puts it: "Deposits are flowing out of the Euromarket—where they are not captured in domestic monetary aggregates—into domestic financial markets—where they are captured all too well. Essentially, this is a redistribution of dollar bank deposits, which does not affect the liquidity of the global financial system."

If the Federal Reserve were fueling inflation, you would see gold and silver prices shooting up instead of moving downward. You would see the dollar weakening instead of strengthening against major currencies.

All the reliable indicators of inflation are negative.

The Fed is leaving interest rates abnormally high. Inflation is almost nonexistent and isn't likely to return in the next 90 days. Short-term interest rates, by historic standards, should be around 5%, instead of 9% to 10½%.

In the absence of a sensible monetary system, the Fed and the Administration should ignore the Ms and pay more attention to commodity prices, most particularly gold, and to the dollar exchange rate.

ANDROPOV'S OFFENSIVE IS FIZZLING

Since taking over upon Brezhnev's death, new Soviet boss Yuri Andropov has been busily stirring up trouble.

He put his heavy hand on the German elections. He has stepped up arms shipments to Central America and to Syria, including a series of Soviet-manned missile batteries. Reinforced Russian troops are on a murderous rampage in Afghanistan. Soviet subs are blatantly violating Scandinavian territorial waters. Andropov is blustering about placing nuclear missiles in Eastern Europe and in Central America, unless we back off stationing Pershing and cruise missiles in Western Europe. Soviet puppet Vietnam is carrying out increasingly violent raids against Cambodian border camps in Thailand.

What has Yuri to show for his efforts? Very little.

His intervention in Germany played a critical part in Chancellor Kohl's decisive victory. Afghan guerrillas are bloodied but unbowed. Heating up Central America has provoked the Reagan Administration into action. The President's sacking of the State Department's chief Latin

American officer, whom the White House considered insufficiently hard-line, is the latest sign.

If Yuri thinks his saber-rattling via Syria will cow Menachem Begin, he is courting a major humiliation. Should the Israelis strike at those missiles and at Syrian troops in Lebanon, there is little the Soviets can do about it, short of World War III.

Andropov's submarine tactics in the Baltic have aroused the Swedes into beefing up their antisubmarine capabilities and have undermined the credibility of potent peace groups in Scandinavian countries.

Russian chest-beating over our Pershing and cruise missiles led to the united front that Reagan achieved at the Williamsburg Conference on this critical point.

Some fear that increased Soviet frustration may lead the Russians to do something truly reckless.

On the contrary, a continued firm Western response will lead, sooner than later, to *serious* negotiations, starting with nuclear arms.



The Mercedes-Benz 300SD Turbodiesel is one of the most expensive, least extravagant corporate automobiles you can buy.

The 300 SD is \$38,000* worth of automotive enlightenment—a corporate flagship meant to stress not pomp but efficiency. Meanwhile, its retained value over the past three years has been shown to *average* 90 percent.

Does your company have the technology of the 1990's in its executive offices, and the technology of the 1950's in its executive garage?

The fact is that inefficient operation, excessive size and savage depreciation need *not* define today's corporate flagship. The 300 SD Turbodiesel represents a different and refreshingly more sane equation.

10,000 miles @ \$380?

The 300 SD's basic design efficiencies permit the efficiency of a diesel engine only *three liters* in size. It is no ponderous V-8 but an in-line five—and such a light drinker that a fuel cost of about \$380 per annum is conceivable, based on 10,000 miles' driving, current average diesel fuel prices of \$1.25 per gallon, and a 33 mpg EPA highway mileage figure. (City mpg [27] EPA.)**

The dollars and cents may not be crucial; the concept of relentless efficiency that such figures reflect, however, is as bracing as it is novel in the world of company cars.

So sanguine is Mercedes-Benz about the reliability of the 300 SD and its engine, incidentally, that it comes with a 36-month-or-36,000-mile warranty.†

This frugal diesel is meanwhile the most *powerful* such engine yet placed in a production automobile. Old images of "diesel lag" are obliterated in a turbinelike rush of energy and brisk acceleration, generated by a built-in turbocharger.

Five adults will find themselves extremely well cared for aboard the 300 SD. Its interior is almost 109 cubic feet worth of first-class

repose, outfitted with only first-class amenities.

Yet so disciplined is its design that the car is less than 17 feet long and turns within just 39 feet. At 3,780 pounds, it is neither ponderous nor flimsy but athletically trim.

Its all-welded body achieves remarkable solidity and strength in part by using high strength, low alloy steels. Both the trunk lid and hood are fabricated in aluminum—part of the engineers' relentless quest to pare off weight wherever possible.

Not for boulevards only

If the 300 SD doesn't perform like the usual diesel, neither does it handle like the usual limousine in the clutch.

Mercedes-Benz, refreshingly, assumes that even company presidents must sometimes face switchback curves, slippery spots and potholes. The 300 SD is girded for such adversity: its fully independent suspension, zero-offset front suspension geometry and forged light-alloy wheels may be less showy than opera windows or carriage lamps.

There is no real need for a company driver to pilot the 300 SD. Its acute precision of response makes it deeply pleasurable to drive, across town or across country. A "driver's car," defined. For instance, note that its crisp four-speed automatic gearbox can also be shifted by hand.

120 safety features

Passengers are hardly ignored. Twin reading lamps are recessed in the rear of the cabin. There is

even a separate ventilation console to serve the rear-seat occupants. The complement of standard features includes electronic cruise control, electric window lifts and front-seat adjustment, AM/FM stereo radio/cassette player with four speakers, and trimming in genuine hand-finished woods. No fewer than 120 safety features are also standard.

The 300 SD's history of value retention outstrips that of any luxury sedan extant. In fact, the *N.A.D.A. Official Used Car Guides* for 1982 calculate an average retained value for the 300 SD, over the past three years, of 90 percent. This helps place its \$38,000 price in proper perspective.

A persuasive statement

There is one final argument for bringing a Mercedes-Benz 300 SD Turbodiesel Sedan into the firm. While efficiently serving the firm, it serves also as a fine advertisement—identifying your company as progressive-minded, and sensible, and shrewd. What limousine has ever made a statement quite like that?

*Approximate suggested advertised delivered price at port of entry. **EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather. †This is, of course, a limited warranty; you should consult your authorized Mercedes-Benz dealer for full details.

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Engineered like no other car in the world

"Northwestern Mutual is giving me an extraordinary headache."

HARRINGTON: Look at this, Smyth! Extra Ordinary Term! It combines the protection of term with the advantages of whole life to give Northwestern Mutual Life policyowners the best of both worlds. While maintaining level premiums it actually builds cash value! Our company has never heard of such a thing, much less thought of it!

SMYTH: Hate to break this to you, Harrington, but the Northwestern has also come up with another innovation: Update '83.

HARRINGTON: I know. That's the program that offers their policyowners the opportunity to increase their dividends. Some up to 40% or more — *without* an increase in premiums. How do they *do* it?

SMYTH: Really, Harrington, is it any surprise, coming from an innovative company that has been an industry leader for over a century?

HARRINGTON: Well, next year, Smith — next year, *we'll* be the ones to be the first with the innovations for *our* policyowners. What do you think of that?

SMYTH: Fine. But don't we say that every year?

Of course the competition considers our innovations such as Extra Ordinary Term and Update '83 tough acts to follow. But that just makes it all the easier on our policyowners. Northwestern Mutual plans are available only through Northwestern agents. So, if you don't own a Northwestern policy, perhaps you should give us a call. And start making it easy on yourself.

**Northwestern
Mutual Life**

The Quiet Company

A tough act to follow

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A SOFTER DOLLAR AHEAD

WHAT GOES UP MUST COME DOWN, including the currently almighty U.S. dollar. What's Ahead expects that the dollar will continue to strengthen against other currencies only a bit longer, until midsummer, but then decline during the remainder of 1983.

The giddy ride is over

THE DOLLAR HAS HAD A GIDDY RIDE. Since 1980, on a trade-weighted basis, it has climbed dramatically against the world's key trading currencies, especially the deutsche mark and Japanese yen. It is now clearly overvalued. Witness the \$50 billion-plus trade deficit now in prospect for the U.S. for calendar 1983. Market forces must eventually compel adjustments. That time is almost here.

There is a case to be made, of course, that market forces can't offset the power of U.S. interest rates, which have lately turned up again. Since early May the basic money stock, M1, has jumped by an eye-popping \$14 billion. On an annual basis, that translates to a worrisome 14% growth rate, or roughly twice the Federal Reserve Board's target. Thus, inflationary expectations are again on the rise. That, it is being argued, would compel the Fed—with or without Paul Volcker at its head—to adopt a tight money policy that will boost rates.

The Fed will do some neat fine-tuning

THOSE SO MINDED SEEMINGLY WANT TO HAVE it both ways: too much money, on the one hand, leading to higher rates, and tight money, on the other hand, also leading to higher rates. But underlying the paradox, of course, are still-unallayed anxieties about inflation. What's Ahead believes that the rise in rates that began in early May has been caused by a loose, not a tight, monetary policy. Chances are good that the Fed can execute a neat bit of fine-tuning, tightening money just enough to reassure the capital markets that it has not forgotten about inflation but not tightening so much as to make credit really scarce. There's a lot of money around, and business demand for it is not yet all that robust.

A lift from more competitive U.S. exports is sorely needed. During the recession the U.S. trade deficit accounted for nearly 75% of the decline in gross national product, according to Irwin Kellner, chief economist at Manufacturers Hanover.

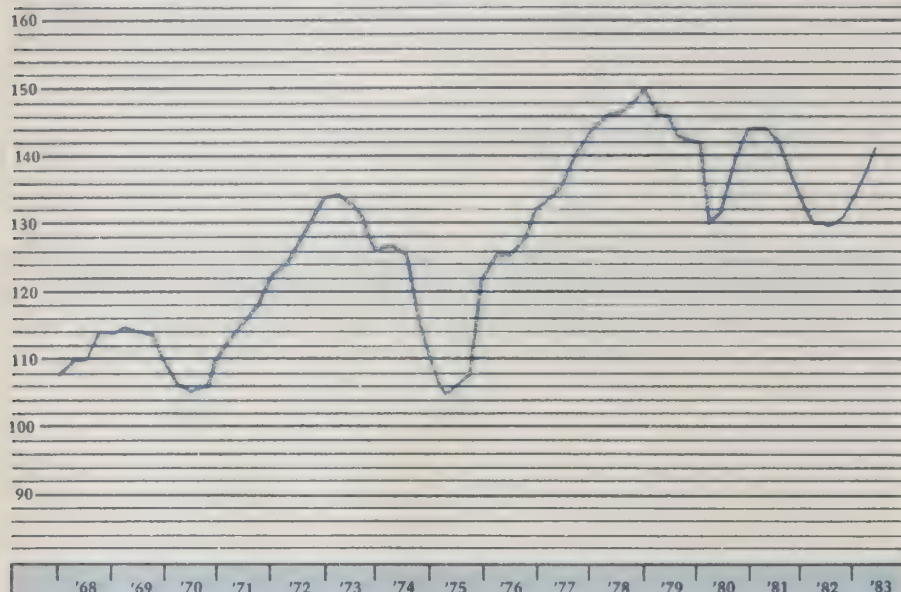
No one wants a strong currency

CHANCES FOR AN EASING IN THE DOLLAR'S strength will be helped by events abroad. Most major industrial countries are currently showing stronger than expected economic gains. The only laggard is Japan, which has yet to show real signs of recovery.

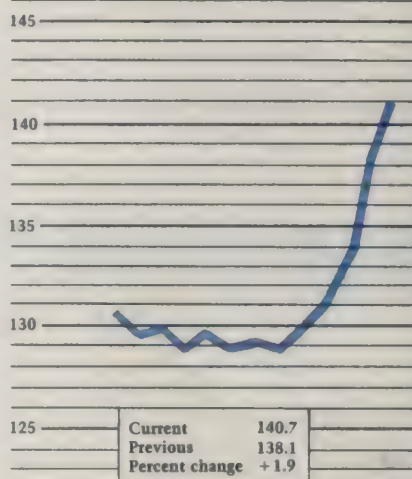
These days, of course, there are no sure things. A default by a developing nation, for example, would surely inspire investors to seek safety in dollars. Also, foreign governments, despite their bitter complaints about high U.S. interest rates, are not at all unhappy about the strong dollar. They can be expected to try to influence the foreign exchange markets, each of them seeking a competitive edge through a competitive (relatively soft) currency. Says one analyst: "Nobody wants a strong currency now."

The Forbes Index

Forbes Index



12-month close-up



Gaining momentum. The Forbes Index has posted yet another increase. This time the Index rose 1.9%. That's slightly less than the 2.1% gain registered during the previous reporting period, but strong, nonetheless.

Manufacturers' new orders provided most of the good news. They jumped 3.8%, compared with a 2.4% rise in March. This is the highest level manufacturers' new orders have hit in almost two years. Manufacturers' inven-

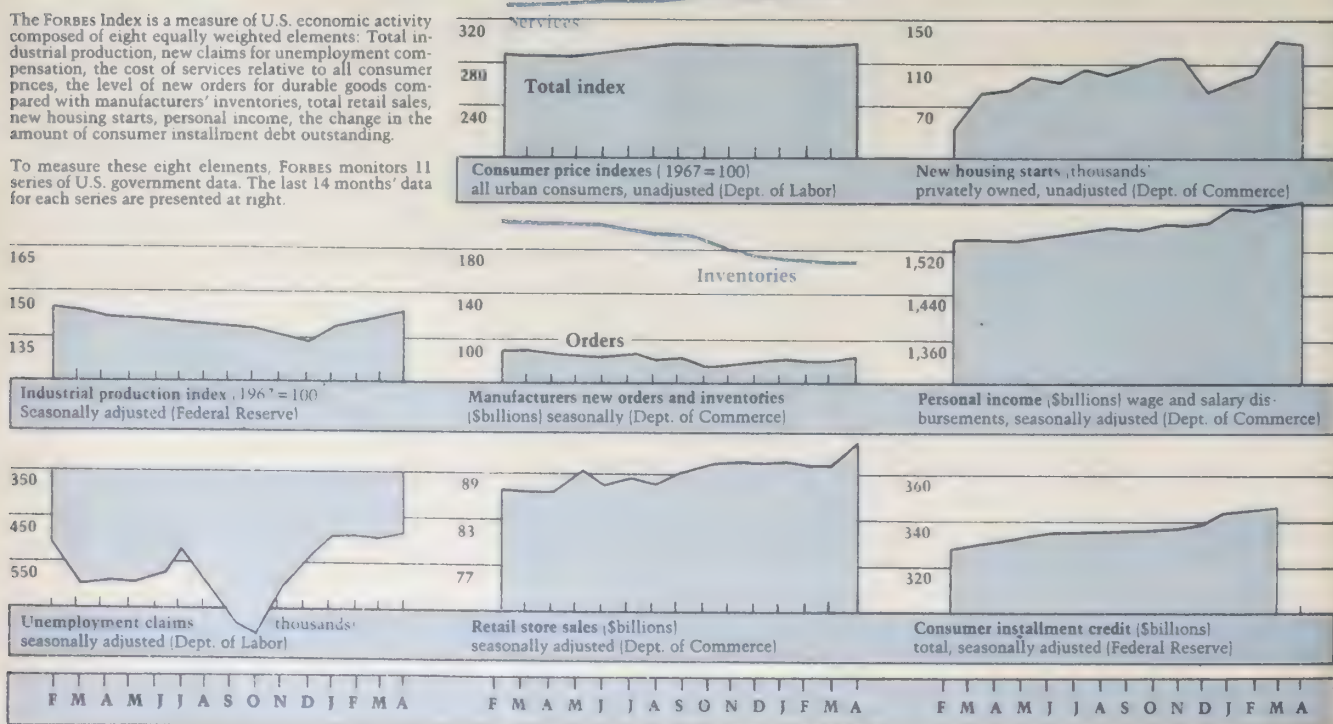
tories, on the other hand, were up 0.3%. This indicates that recent inventory liquidations are over.

Now that consumers are starting to spend, manufacturers can be expected to increase new orders to meet growing demand. That, in turn, should help the recovery gain strength as the year wears on. Clues to the length and strength of the recovery will become visible over the next several weeks as key economic numbers are released.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.



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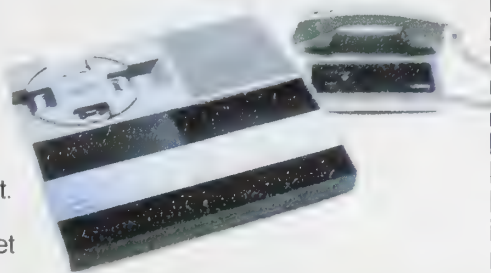
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Sign of the times: Bankrupt brokerage John Muir & Co. has at least \$15 million in windfall assets, and Ray Dirks is rich again.

A rising tide

By Anne Bagamery

WHEN WE LEFT John Muir & Co. (FORBES, Oct. 25, 1982), the embattled brokerage firm's 18,500 customers had finally retrieved cash and securities frozen in their accounts when Muir entered liquidation in August 1981. But most customers sustained large losses in market value during the freeze and reportedly couldn't wait to bail out.

Too bad, too. Look at what has happened to the 49 issues Muir underwrote between 1977 and 1981 (see table, p. 40). Some have languished, 2 have gone bust, but fully 23 out of 49 have posted respectable, and in some cases astounding, gains. The group even boasts some bona fide stars: Digital Switch, which rose from a 1982 low (adjusted for a stock split) of around 3 to a recent stock price of 42, and Scientific Leasing, up from last year's low of 4 $\frac{5}{8}$ to around 34 recently.

In short, anyone who bought equal-dollar amounts of Muir's 49 stocks and held through the apocalypse would have nearly tripled his money. What's more, Muir's remaining assets have appreciated so much that the firm's employees and priority creditors may well get some, if not all, of their money back, which seemed unthinkable before the stock market took off last summer. There may even be something left over for Raymond Dirks, the flamboyant partner whose flair for promoting hot stocks both built Muir and put it in the soup.

The whole affair recalls again an old



Muir general partner Raymond Dirks

His securities will be worth \$9 million-plus—maybe.

To those who wait

An investor who had put \$1,000 into each of 49 Muir-underwritten stocks—and then held on through last summer's market rally—would have seen his \$49,000 grow by 193%, to \$143,580.

Company	Date offered	Offering price	Recent price (inc. warrants)	Value of \$1,000 invested
Tri-American ¹	9/14/77	\$ 4.25	\$11.50	\$2,706
Knogo	9/14/78	5.50	20.38	3,705
Celina Financial	10/4/78	11.00	7.75	705
Aneco Reinsurance	11/28/78	6.00	3.75	625
Denelcor	1/31/80	4.50	14.63	3,250
Universal Fuels*	4/10/80	5.00	3.25	650
Nitron	5/29/80	5.00	1.00	200
Intl Capital Equipment	6/12/80	5.50	7.00	1,273
Empire Oil & Gas ²	6/19/80	1.00	0.22	219
Energy Clinic ³	7/1/80	1.00	2.38	2,375
Digital Switch*	7/29/80	2.62	160.00	61,069
Griffin Petroleum ⁴	8/28/80	1.00	0.47	468
Mid Pacific Airlines	9/16/80	5.00	14.00	2,800
Numex ⁵	9/17/80	4.00	0.00	0
American Pac Intl	9/30/80	1.50	1.25	833
Little Prince Productions	10/7/80	2.00	5.63	2,813
Meridien Productions	10/30/80	0.30	0.20	667
Solid Photography ⁶	10/30/80	5.50	12.13	2,205
Custom Alloy ⁷	11/18/80	12.00	13.00	1,083
Security America ⁸	11/20/80	6.00	0.00	0
SAI Group*	11/26/80	2.00	3.63	1,813
Cayman Islands Reins*	12/17/80	1.00	0.13	125
Basic Earth Sci Sys*	12/18/80	7.50	5.25	700
Brady Energy (preferred)	12/19/80	10.00	1.00	100
Superior Care	1/6/81	3.00	7.63	2,542
Metal Arts	1/22/81	1.00	0.63	625
Datavision	1/29/81	2.50	6.50	2,600
Enterprise Radio ²	2/3/81	5.00	0.05	10
Balance Computer*	2/5/81	2.00	2.94	1,469
American Syn-fuels*	2/11/81	1.00	3.88	3,875
Micros Systems	2/12/81	2.50	4.38	1,750
Scientific Leasing	2/17/81	6.00	33.88	5,646
Energy Clin (secondary off) ³	3/2/81	1.50	2.38	1,583
Bio-Energy Sys ⁹	3/6/81	0.75	4.00	5,333
Atours ¹⁰	3/10/81	1.50	8.88	5,917
Star Brite	3/26/81	2.00	0.63	313
Henry Energy	3/31/81	1.00	0.69	688
American Fiber Optics	4/1/81	6.50	11.00	1,692
Cyber Diagnostics ¹¹	4/8/81	1.00	0.19	188
Neighborhood Rlty Gr-USA	4/13/81	1.00	0.01	10
Aero Svcs Intl	4/14/81	3.00	5.13	1,708
Central Corp Reports Svc	4/30/81	3.00	4.75	1,583
Cogenic Energy Systems ¹²	5/21/81	1.00	5.75	5,950
American National Petrol	6/4/81	1.00	1.19	1,188
North East Insurance	6/16/81	4.50	1.88	417
Wind Baron	6/23/81	1.00	2.00	2,000
Air Chaparral ²	7/8/81	1.00	0.63	625
Ferrofluidics	7/16/81	2.00	10.38	5,188
Quickprint of America*	7/23/81	5.00	1.50	300

Note: Data adjusted for stocks splits. *Unit offering. ¹Acquired by Scottish & York Holdings Ltd., 7/13/81. Recent price is cash received. ²Filed for Chapter 11. ³Acquired by Servamatic Solar Systems 1-for-1. ⁴Acquired by MGF Oil: 1 share MGF for 4.27 shares Griffin. ⁵U.S. Machine Tool unit filed for Chapter 11. ⁶Name changed to Robotic Vision Systems. ⁷Name changed to Custom Energy Services. ⁸Security Casualty Co. subsidiary liquidated. ⁹Name changed to Besicorp Group. ¹⁰Name changed to Cache, Inc. ¹¹Name changed to CDX Corp. ¹²Includes spinoff, 1 share National Energy Capital for each 5 shares of Cogenic.

Sources: Wilshire Associates, FORBES

saying: Financial genius is a short memory in a rising stock market. Just as the sick market of 1981 brought Muir down, so the rip-roaring bull market that started last summer has lifted its stocks up again. A rising tide, the adage goes, floats all ships.

The pride and joy of the Muir offerings is Digital Switch. Until recently the tiny company in Richardson, Tex. seemed to be one more Muir hype. The stock had traded as high as \$10.25 a share, even though the company was losing money and had yet to produce a product. But in 1982, Digital Switch actually turned out its first digital switches and landed a mammoth order from MCI. After a \$3.4 million loss in 1981, the company earned \$5.8 million in 1982 and may earn as much as \$30 million this year.

All this is good for any Muir customers with the foresight or dumb luck to stay the distance. But it's even better for Muir—or, technically, the Muir estate—and for Ray Dirks. The firm, though insolvent, owes \$12 million to the Securities Investor Protection Corp., which paid back the customers, and millions more to assorted general creditors. Until recently repayment would have been difficult or impossible. The assets available for repayment consist mostly of securities—stocks and warrants—from Muir's corporate underwriting clients, and the warrants had been valued, says Dirks, at only \$5 million at the time the firm became insolvent. Dirks and two associates are personally liable for any shortfall.

Sources close to Muir bankruptcy trustee Harvey Miller say it now appears that SIPC will get back "all or substantially all" of its \$12 million, and the estate will probably be able to begin paying back employees. The reason for such confidence: Muir's 25,000 Digital Switch warrants alone are worth \$3 million. And the estate still holds warrants on 37 of Muir's 49 underwritings, including good performers like Cogenic Energy Systems. Muir's general assets have likely increased threefold or more.

As for Dirks, who now runs his own investment banking business, he may still be liable for customer suits and hassles with the SEC. In June he was found guilty of civil fraud in one SEC case, but no financial or other penalties were imposed. Once Muir's creditors are paid, his own account—including about \$9 million worth of Digital Switch warrants—will be unfrozen. What if it takes a couple of years, and the market reverses? Says Dirks: "The longer I hold on—or have to hold on—the better off I'll be."

Maybe. ■

IRA, considered to be a good idea to begin with, is now in danger of becoming ...

The newest pork barrel

By Jayne A. Pearl

IF YOU LIKED THE IRA—the Individual Retirement Account—how would you like more? Maybe a similar account to help high-tech-minded Americans afford a home computer, or a new auto?

That seems to be the reasoning in Congress these days. IRAs have been such a bonanza for financial institutions that other special interest groups are clamoring for a piece of the pie. Six bills have been introduced in the House and two in the Senate to create something called the Individual Housing Account, or IHA, which would provide IRA-like upfront deductions and tax deferral on interest from money saved by first-time home buyers toward a down payment. President Reagan wants an IRA-like instrument to help parents finance their children's college education. There is even talk of an Individual Training Account that might help retrain laid-off workers to get jobs in service or high-technology industries.

Under the housing proposals, up to \$2,000 for a couple or \$1,000 for a single person could be stashed away each year, with tax on the interest deferred—just as in an IRA—up to \$10,000. When the money is used to buy a home, the deferred taxes would have to be repaid over several years. Senator John

Tower (R-Tex.) has taken it a step further. Tower has introduced a bill to permit mortgage prepayments to be called IRA contributions and allow IRA withdrawals to be used for down payments.

Unlike the housing bills, Reagan's college plan differs a bit from the IRA. It would permit \$1,000 a year to be put into a savings account on which the interest would be tax free, not just deferred for families earning up to \$40,000 a year. Exemptions would scale down to zero for those earning between \$40,000 and \$60,000. But the \$1,000 could not be deducted from income taxes, as in an IRA.

What makes the IRA so attractive is that it scratches so many backs at the

same time. A housing IRA, for example, would help first-time home buyers, but at the same time would rain money on real estate agents and make the construction unions very happy.

Unfortunately, a subsidy by any other name is still a subsidy, and the last thing the highly subsidized home-building industry deserves is yet another subsidy. Nor can the Treasury afford it in the days of \$200 billion deficits.

What are the chances that any of these IRA clones will become law? Tax analysts at the Senate Finance and the House Ways & Means committees believe none has much chance this year, especially if the housing recovery picks up further steam. Yet the Administration's support, and pressure from special interest groups, are not to be ignored. If not passed this year, they may be back next.

One big question is whether IRAs, as was their intent, have encouraged savings. A recent study by the Federal Reserve Bank of New York found that most of those who opened IRAs since 1981 were in "income groups with the highest participation rates in the past ... [who] ... already have accumulated assets that may be used to fund IRAs." In other words, people who were already saving simply switched from one kind of account to another.

The Fed study, of course, only tracked short-term results. In the long term IRAs may have a significant effect on the U.S. savings rate. But they are no free lunch: Congress' Joint

Committee on Taxation originally expected 1982 tax revenue reductions of about \$1.5 billion on about \$4 billion in IRAs nationwide. It now appears that at least \$20 billion worth of IRAs were opened in the 1982 tax year, reducing tax revenues by \$6 billion to \$7 billion. The Joint Committee estimates that the IHA plan and the Reagan education plan each would represent another \$1 billion reduction a year. Most shocking of all is Senator Tower's proposed giveaway to the housing industry. It could put up to \$10 billion out of the taxmen's reach.

Is it any wonder this country can't balance its budget? ■



It was a long time in coming, but Pan Am is on its way back to prosperity, a very different company from what it was.

Tail wind at Pan Am

By Geoffrey Smith

JOE MINICHELLO, in a "We do it nonstop" T-shirt and faded jeans, threads his way through a sea of computer terminals to his tiny station in the bustling central reservations department of Pan American World Airways. "This place back in November, December, was very depressing," he says, struggling to make himself heard over the din. "I almost took voluntary layoff after 13 years because I figured we were about to go out of business."

"It was scary—we could see it going down the tubes," says passenger service agent Audrey Price.

Today, say the same Pan American World Airways employees, it's a totally different story. Minichiello: "Now I'm glad I stayed. We're in a complete turnaround." Price: "We're going to make it." Bert Batson, special services manager, waiting to greet General Alexander Haig on Pan Am's incoming flight 800 from Tokyo: "I don't think we're ever going to get smug again."

But you have heard this before: Pan Am is turning around. Yet it never has. It has long seemed to be the chronic invalid of the airline business. This time, however, is different. Consider the following facts:

- In the past six months, with hard-won deferrals and well-timed securities offerings, the airline has raised half a billion dollars—most recently \$100 million in mid-May that, significantly, was not secured by aircraft. Some \$250 million of that money is uncommitted, enough to keep the airline running without a bank line even if it finishes the year in the red. Given a reasonable run of profits this summer, that cash supply could more

than double by year-end.

- In a worst-case situation, Pan Am still has substantial unencumbered assets: its \$300 million (sales) World Services subsidiary, its \$55 million terminal at New York's JFK Airport, 20 planes in its current 128-plane fleet, including a 747 freighter that is worth more than \$40 million.

- Pan Am has labor peace: Its five labor unions have each taken a 10% across-the-board wage cut and have agreed to a wage freeze for two years. During that time the cut will be gradually restored. That already has given the airline a cost advantage over its competitors, since wages represent fully one-third of operating costs, and that advantage is bound to increase significantly.

- Pan Am turned cash-positive in March—no mean accomplishment, since the winter months are normally the weakest period for an international carrier.

- Domestically the percentage of seats filled on Pan Am flights has risen dramatically, to a recent and respectable 61.9%. If that was achieved to some extent with discount "fill up" fares, it certainly has not damaged the airline's bottom line. Pan Am was the only one of the leading airlines to improve yield per passenger mile for the first quarter (up 2.1%). And it was one of only two major airlines to lower costs—by 8.8%, far better than its only rival, TWA (2.2%).

So, once again, Pan Am has pulled back from the brink. Last-minute rescues have become a way of life at the airline: In October 1974 William Seawell, then Pan Am's CEO, even went so far as to hold a preliminary meeting with bankruptcy lawyers. Burdened with excess capacity on its 25 new 747s, just as traffic slowed and

Tokyo 'dumbbells'



oil bills soared, the airline hit cut-throat competition. Pan Am squeaked through with route restructuring, staff cutbacks and a sharp increase in traffic as the economy recovered and Pan Am became once again one of the industry's profit leaders. But then, when he could have been modernizing his aging fleet, Bill Seawell, a former Air Force general, was caught up

In the old days Pan Am made its money on the dumbbells (long hauls between two hubs) and gave a lot of it back to other carriers on connecting short-haul flights. But now, with feeder systems operating not only for its domestic

gateway hubs (New York, Miami, Los Angeles and San Francisco) but also for overseas hubs like Tokyo (London and Frankfurt are two others), Pan Am is uniquely structured to make the most of its far-flung route system.



SFO San Francisco
IAH Houston
LAS Las Vegas
DFW Dallas/Ft. Worth
ORD Chicago

MSY New Orleans

LAX Los Angeles
MIA Miami

IAH Houston
MEX Mexico City
CCS Caracas

GIG Rio de Janeiro
CGH São Paulo
MVD Montevideo
EZE Buenos Aires

GUA Guatemala
CGH São Paulo

JFK New York City
BOS Boston
BDL Hartford
PHL Philadelphia
WAS Washington, DC
DTW Detroit
GIG Rio de Janeiro

in a nearly disastrous merger with National Airlines. As the result of a prolonged bidding contest with Eastern and Texas International, the price Pan Am had to pay reached ridiculous levels. Coming as it did just on the eve of deregulation, it was the wrong time and the wrong price by a wide margin, with the wrong routes and the wrong planes. As red ink began

staining the income statement in 1981, Pan Am common sank to a scrap-value price of 2⅜, which also approximates the exercise price of Chairman C. Edward Acker's 1-million-share option package—now worth over \$3 million, at a recent 6⅞.

Pan Am's employees received a painful education on how poor management decisions can jeopardize

jobs. Reservations clerk Minichiello speaks with disgust of the National merger: "We paid \$400 million for something we could have had for nothing a year later. Somebody up there thought all you had to do to merge two airlines was paint the planes the same color. All of a sudden I'm sitting there talking to some lady in curlers up in Westchester who

wants to go to Ft. Lauderdale. I vaguely knew where Florida was. The National people didn't know where Ouagadougou, Africa, was. My job was going down the drain."

Martin Shugrue, now senior vice president-marketing, was running Northern European and U.K. marketing out of London when he was brought back in the summer of 1980 to head labor relations. He vividly remembers what things were like on the 46th executive floor of the Pan Am Building in mid-Manhattan in 1980: "It was absolute madness, a monumental fraud show. Bill Seawell lost the confidence of the employees because the employees thought he was wrong, and he was."

When Seawell resigned, at the age of 64, enter droll, unflappable Ed Acker in September of 1981, lured away by headhunters from the chief executive's slot at then highly successful Air Florida. "I had applied for the captaincy of the *Titanic*," he told security analysts shortly afterwards, "but that job was taken, so I had to settle for Pan American."

Virtually the entire Pan Am top management jumped ship. John Anderson, the top marketing man, left to become vice president at Wells, Rich & Greene. Jim Waugh, the top operations man, retired. Bill Waltrip, president and chief operating officer, was offered the chief operating officer slot at Puroator and took it. Stephen Wolf, brought in as senior vice president-passenger sales and services with much fanfare from a top spot at American, left to become president of Continental. And Tom Wendel, Pan Am's top finance man, left to become chief financial officer of Paine, Webber, Jackson & Curtis. It was getting downright lonely on the 46th floor of the Pan Am Building.

That made life interesting for people like Jerry Gitner, 38, who came on board in February of 1982. Gitner, who had spent his entire career in marketing, suddenly found himself appointed chief financial officer four months after walking in the door. But Gitner, like Acker, was cut from very different cloth than Pan Am executives of the past. He was entrepreneurial, not a bureaucrat: "I worked for TWA, which had lost lots and lots of money," he says. "Then Texas International, which a lot of people said would be the first airline to go, even in a regulated environment... until we made \$46 million in a takeover war with Pan Am. Then being one of the first ones out of the box to start up a new airline, People Express, investing all my own money, including my

wife's jewelry." And here he was, gambling again.

Facing a bloody third quarter, Gitner had to move fast. On Sept. 15 he had to come up with \$133 million in overdue pension fund contributions. He persuaded the Internal Revenue Service to allow Pan Am to defer that obligation over a 15-year period.

Pan Am had to borrow or go into default. By Dec. 15, after weeks and weeks of hard bargaining, creditors like the Pru and Metropolitan Life lifted the covenants that limited further borrowing. "It was an eleventh-hour deal," says Gitner. "I think the key was, we never asked them to defer our payments. We just asked for relief on the operating covenants."

Two weeks later, on Dec. 30, Gitner persuaded General Electric Credit to defer \$38 million in loan repayments,

"It was absolute madness," says Shugrue of Pan Am in 1980. "A monumental fraud show. Bill Seawell lost the confidence of the employees because they thought he was wrong, and he was."

pledging two DC-10s and two 727s as collateral.

And so it went. The British Ex-Im Bank equivalent, the Exports Credits Guarantee Department, which had underwritten the Rolls-Royce engines in Pan Am's 12 L-1011s, agreed to an eight-year stretch-out on \$82 million worth of repayments owed.

Score to date: \$268 million of cash drain knocked out, at least for the moment. Three days later Gitner came out with a \$150 million offering of 15% convertibles, backed by seven 747s and three DC-10s. "It's what we call 'shop window' money," says Gitner. "We ended up our Mar. 31 quarter with all that cash... plus." Pan Am was back in business, and the travel agents knew it. Overnight the rumors of imminent collapse stopped as suddenly as they had begun.

Three months later Pan Am drove the point home with an unsecured \$100 million borrowing at 13½%, sweetened only by five-year warrants at \$7.90. Quite clearly, the lenders were impressed by what Acker and his crew were doing. (It is equally clear that they would be even more impressed if Acker took the logical next step of an equity offering sometime soon.) What opened the creditors' eyes was that in a matter of months Acker completely rerouted the old National system. "What

we've now done is take a medium-size trunk and converted it into a feeder for our international system," he explains. "I guess at one time we had 40 flights a day out of Houston. We're now down to 14. What we've done is take all those flights and shift them to Pittsburgh, Cleveland, Cincinnati, Chicago and Detroit to feed our gateway cities of New York, Los Angeles, Miami and San Francisco."

"Houston was too far south for us," Shugrue explains. "It didn't do much in terms of tying together our most important cities: New York and Los Angeles/San Francisco. So rather than think of a middle-of-the-country hub a la Dallas/Ft. Worth for American, Denver for Continental, or Chicago for United, we decided that the Pan Am hubs are our coastal gateways: New York, Miami, Los Angeles and San Francisco."

"You've got to know what your company's strengths and weaknesses are, and what we don't do so well—as we learned bitterly after the merger—is fly a domestic airline operation," he admits. "We're not organized for it, and we don't have the right planes for it. Here we are sitting with 747s, which are too big; 727s, which are too small and not too efficient; DC-10s, a good domestic airplane but deployed on the wrong routes. So we played to our strengths. We developed our international feeder services flying from interior U.S. cities to coastal gateways and beyond."

That conceptual change makes an enormous difference to the economics of running Pan American World Airways. The key to the difference is "pro rates." These are the portion of a fare that the airline booking a passenger's connecting flight gives up to the next carrier. Acker explains: "One of the things that has kept Pan Am's yield per passenger mile fairly low in the past has been the amount of money we've had to give up to other airlines on connecting short hauls. That pro rate is very expensive, just as it is in the railroad industry."

Acker explains why: "If I sell a ticket New York to Brussels for, say, \$300 one way, my flight goes to London, 3,500 miles, and then the last 200 miles is on British Airways from London to Brussels. I then have to hand over \$100 to British Airways for carrying him 200 miles, and for carrying him 3,500 miles I get only \$200. So what would have been an 8-cents-per-mile yield for me suddenly becomes only 6 cents because I've had to give so much of it away for a short portion of the trip. Now if I fly him all the way to Brussels on Pan Am, I keep it all."

And the same goes for Cleveland or Detroit on the other end. Makes a hell of a difference."

Now look back at Pan Am's domestic flights and watch how the economics changes strategy there. By eliminating an increasing amount of the pro rates it must share with other airlines, Pan Am's domestic flights break even if there are just a few passengers booking on connecting Pan Am international flights. Says Shugrue: "You can cost out a trip by how many international tickets you're going to sell in interior cities, and you have lots of seats left over that are costing us nothing at all."

It's what's called turning weakness into strength. Shugrue explains: "Take Chicago-New York. We've got the wrong airplane, the L-1011. The other guy has a widebody. We go to

L-1011. The leverage is potentially formidable. "And nobody else can do this all over the world like we can," adds Shugrue. "Japan Airlines can do it in Tokyo. Lufthansa can do it in Frankfurt. And British Airways can do it in London. But only Pan Am can do it everywhere." Already, 35% of Pan Am's long-haul international traffic is fed by its own short-haul flights, and Ed Acker has been at it only a year and a half.

The point is that Pan Am finally has a viable strategy.

Beyond this, though, employee morale is a crucial factor in the labor-intensive airline business. But it's not easy to build morale when you have just asked everyone to take a 10% cut in pay, not seek a pay increase for two years and not be concerned by the layoff of about 10,000 of Pan Am's

have a tail wind," says Gitner. "All the indicators are up. There's been a tremendous change at Pan Am—just incredible."

Shugrue, who recently turned down a chance to be the president of Western Airlines, is a former Navy fighter pilot who got into Pan Am management after being furloughed as a flight engineer. He knows just what it's like to have his job on the line every day. "You know, I made a speech to the pilots just about the time I took over this marketing job," he says. "They asked me a lot of questions. Finally I looked down from the podium, looked 'em right in the eye—and I knew a lot of them, had flown with them—and I said, 'Look, I'm 42 years old. I have four kids. My future is in front of me, not behind me. If you think that I'm busting my ass 15



Chairman Ed Acker talking to "the troops" at Kennedy Airport

After a 10% wage cut, a two-year wage freeze and 10,000 fewer workers — and nonstop pep talks.

the wrong airport. The market wants to go to La Guardia. We go to Kennedy. The Chicago-New York traffic wants frequency. We go once a day and we leave at the wrong time of day because we need to connect with our international flights. So, how do we fill those seats when we don't give the traveler what he wants? We say to the consumer, 'If you're willing to make your schedule conform to mine, I've got 100 seats I'll sell you at a discount.' We call them 'fill up fares.' " Pan Am's Chicago-New York fare is as low as \$99, vs. \$228 for American. **T**he competition has another word for it, but without Pan Am's huge international traffic advantage there is little they can do to retaliate.

Pan Am is also setting up the feeder system for its overseas gateways: Tokyo, London and Frankfurt. Now a toy manufacturer in Philadelphia might fly a Pan Am 727 to New York's Kennedy Airport, board a Pan Am 747 for the 7,000-mile trip to Tokyo, and then fly on to Seoul or Taipei on a Pan Am

36,000-man work force in just three years, without any corresponding decrease in work load. That's why Pan Am top brass has been doing things like making speeches in a hangar out at Kennedy Airport at midnight to 1,000 mechanics who are just about to go on duty. Or setting up "800" numbers that any Pan Am employee can call and, on every third Thursday of the month, get a top executive to answer any question or suggestion he may have. Or holding systemwide teleconferencing for employees, with lengthy question-and-answer periods. "We've got to work on keeping worker cooperation every day," says Marty Shugrue. "You can't forget it for one minute."

Is Pan Am finally out of the woods? "No," Ed Acker replies calmly. "But we are out of intensive care and the recovery room and are now about to be released from the hospital."

But there is a healthy, almost tangible feeling of momentum on the 46th floor of the Pan Am Building. "We

hours a day in this building to preside over a failure, you're out of your goddamn minds. We're going to win this war.' And we are. And if I didn't fundamentally believe that, then I wouldn't be here."

Do Pan Am's union members share management's gung-ho attitude? A fair number do. Listen to Brooklyn-born Minichiello again: "Look, this is not just a job, it's part of a romance," he says, looking up from his computer terminal. "You figure we were the ones who got people to build airplanes that we could fly over the Pacific into typhoons. We were the first to put fuel into the wings and the first to fly transatlantic. My theory is that if it were the end of the world and everyone was flying home, they would call Pan Am."

They laughed when Lee Iacocca said he could turn Chrysler around. It would be a mistake to laugh when Ed Acker and his crew say they can turn Pan Am around—and keep it turned. ■

Once, Tosco had great promise. A year ago it still had plenty of cash. And now look.

Spendthrift?

By Carol E. Curtis

IT WAS ONLY a couple of years back when Tosco Corp. was the darling of Wall Street. It seemed to have everything going for it: a big stake in the promising shale oil business (original name: The Oil Shale Corp.), solid refining assets, smart management. Anyone who had invested \$3,500 in the stock at its 1978 low would have owned shares worth \$45,000 by 1980. Revenues rose from \$166 million in 1973 to \$3.5 billion within a decade.

Yet today Tosco is struggling to stay alive. One by one, ominous announcements have been emerging from Los Angeles-based Tosco, the nation's second-largest independent refiner. Tosco's first-quarter losses were \$47 million this year, versus a slim profit in 1982's first quarter. In May longtime

Chief Executive Morton Winston, 52, a former English teacher and Washington lawyer, resigned. A key Oklahoma refinery, representing 20% of Tosco's total capacity, temporarily shut down a week later. Meanwhile, Tosco struggled to avoid default on over half a billion in debt, most of it long term. "It looks real, real bleak," says one company insider.

In theory, Tosco should be awash in cash. After all, Exxon bought out Tosco's share of the Colony Oil Shale Project last year for \$380 million cash, equivalent to more than \$20 for each of Tosco's 18.5 million shares. How could the cash disappear so fast? Tosco puts much of the blame for its weak financial condition on Atlantic Richfield, its chief competitor for West Coast gasoline sales. In a highly unusual move, Tosco used space in its 1982 annual report to attack Arco:

"One major company . . . offered gasoline for sale below its cost. Below-cost sales is not competition. It is an exercise . . . in raw economic power."

Tosco maintains that Arco has been cutting its gasoline prices to force independent companies like Tosco out of the West Coast market. It is able to do so, Tosco argues, because of its ownership of Alaskan crude oil.

Arco counters that it has been able to sell its gas at up to 6 cents per gallon less than Tosco because it no longer accepts credit cards and therefore has lower costs.

Whatever the reason, Arco has indeed been gaining market share by leaps and bounds. It now holds 40% of the West Coast gasoline market, up from 25% two years ago. The gain has come chiefly at Tosco's expense. With its shale hopes shattered, Tosco was essentially reduced to a sizable West Coast refining and marketing operation, but now this is in trouble.

Tosco is currently lobbying Congress to force Arco to pay more taxes. But you can't service debt with legislative promises, and Tosco's debt problems are pressing. The company nearly went into default on its credit agreements earlier this year. While an interim agreement for restructuring the debt has been reached with Tosco's banks, the company remains on shaky financial ground. Of the \$380 million Tosco got from Exxon, \$75 million went to pay government debt. About \$129 million went to repay another long-term loan. The loan repayments were essential, since Tosco's debt had risen to an unusually high level for a company in a cyclical business like refining.

But after taxes Tosco still netted a hefty \$103 million. Some \$20 million was given to shareholders in a one-time \$1-per-share payment.

That was defensible, but the last straw was an ill-timed acquisition. With the remainder of the Exxon cash plus substantial additional borrowing, ex-CEO Winston last October paid \$95 million for AZL Resources, a company in the process of changing from an agricultural base to an energy firm. AZL had some promise, but it was cash Tosco needed, not promise.

When gasoline sales slipped further early this year, it became clear to Tosco's creditors that default was likely on its credit agreements with the banks. Winston, who virtually built the company, stepped down, and, for all practical purposes, the banks took over. The onetime hot stock has become a very cold ember. ■



Ex-Tosco Chief Executive Morton Winston
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Baa, baa, baa

Would you pay \$2 for something that is worth only 65 cents? Don't snicker. That's what a lot of people are doing speculating in the shares of bankrupt Itel on the Pacific Stock Exchange. The old financial services outfit is coming out of bankruptcy, and these people seem to think the stock's a buy for that reason. Well, it isn't. Under the reorganization plan each old common share of Itel exchanges for one-twelfth of a new share. The new shares recently traded over-the-counter, on a when-issued basis, at about 7½. You can readily see that makes the old shares worth around 65 cents. Yet the old paper, which sold as low as ⅜ in late 1980, has been trading over 2, with volume running 100,000 shares a week. So, unless the new stock goes over 25—more than trebles—the current buyers of the old Itel won't break even. That's just another sign that speculative enthusiasm is getting out of hand. The sheep are lining up for shearing. Michael O'Brien of Oppenheimer & Co. feels sorry for them, but that's not stopping him from going after some of their fleece. He and his customers are short in the old stock and long in the new.—Thomas Jaffe

Petty cash

Milton Petrie already owns 62% of Petrie Stores, worth, at recent market prices, about \$455 million. So why did he recently buy another 750,000 shares from the company's treasury—to the tune of \$27 million? Wall Street has several explanations, though only one makes sense. It's an interesting one. Petrie Stores owns nearly 21% of the fast-growing Toys "R" Us chain, and so gets to consolidate 21% of Toys' earnings. That's good for Petrie because Toys grows faster than Petrie, and thus the consolidating enhances

Petrie's earnings growth. But Toys' founder Charles Lazarus and others recently sold 1.4 million shares resulting from the previous exercise of their stock options. Petrie Stores, concerned that its ownership might fall below the 20% needed to enjoy consolidation rights, has been buying Toys stock for many months. Those purchases helped deplete its working capital. So Petrie reached into his petty cash to help out—and to provide a nest egg in case Toys issues more stock later.—Howard Rudnitsky

Is Enstar a star?

The whole natural gas pipeline group has recently been moving up, in part, on the strength of the takeover—at a fat premium to the market price—of El Paso by Burlington Northern and the offer for Texas Gas Resources by CSX and Coastal. But one of the smaller and more unusual companies in the group, Enstar, may be a buy on earnings prospects alone, with any takeover prospect just icing on the cake. That's what Michael Mead of Richmond, Va. brokerage house Scott & Stringfellow is telling his clients. Most of Enstar's earnings come, not from its Alaskan pipeline or its natural gas wells, but from shipping Indonesian liquefied natural gas to Japan. That business is off this year—energy prices are down, and part of the Indonesian facility blew up in April. But here's the kicker: The Japanese want more gas, and the Indonesian venture—in which Enstar is a partner with the Indonesian state oil company—is expanding to give it to them. So by next year there will be capacity for at least 115 shiploads of gas, a 65% gain over 1983. Analyst Mead looks for Enstar's earnings to rise to at least \$3.20 a share in 1984, back to 1982 levels and way up from the depressed \$1.90 likely this year. Given a strong

recovery, Mead could see earnings of \$4 a share next year. Considering that the stock sells around \$21 a share, he counts it as a nice bargain on earnings alone. By the way, if the name Enstar doesn't sound familiar, it was formerly Alaska Interstate. The new name reflects the broader interests.—T.J.

False alarm?

The boys are really beating the bushes for takeover candidates these days, and they don't even stop at water's edge. This accounts for recent trading over-the-counter in ADRs for Britain's Bowater Corp. Plc. The ADRs currently go for just under \$3.50. Since there are about 160 million of them, the whole company is valued at some \$560 million. What's the appeal? Bowater owns 1.1 million acres of U.S. timberland and two modern newsprint mills here; 70% of Bowater's assets are in the U.S. Since the book value of the company is about \$4.30 and any takeover bid would have to be at a handsome premium to book, speculators are obviously interested. However, the stock is no bargain on earnings—30 cents last year and no prospects for a big improvement this year—and British traders have been burned before on takeover rumors. Which helps explain why the stock hasn't moved much despite heavy American buying.—T.J.

Join the party

It was not so long ago that \$50 million was real money. Now it's just about what the market thinks a smallish regional brokerage house is worth. Last issue we expressed surprise that Quick & Reilly, the biggest independent discount, was going public for \$100 million. And now look at the Memphis brokerage house Morgan, Keegan, which isn't the biggest any-



LNG tanker in Indonesia

An Enstar earnings explosion on Japanese demand for fuel?

Streetwalker

thing. Morgan, Keegan recently sold one-third of its stock to the public—1.1 million shares at \$13.50 apiece, which have climbed to \$16.75, or about \$50 million in market value for the whole company. What's the company's net worth now? Probably a bit over \$23 million. That makes the market price 2.2 times the book value. With such prices, going public is more fun than selling out. Morgan, Keegan's principals, in effect, took out all their capital and still controlled two-thirds of the company. Not surprisingly, other regional houses are going to the well: McDonald & Co. of Cleveland and RJ Financial of St. Petersburg. What the sellers are doing makes sense, but at these prices what the buyers are doing doesn't.—T.J.

The last 100 points

Jack Leylegian gets nervous when he sees people paying outlandish prices for ordinary investment merchandise. At 47 and after over ten years of running big money at places like Dreyfus Corp. and Bank of America, Leylegian knows where senseless speculation leads: to a down. Experience, moreover, has taught him not to wait

around until the timbers start creaking; that may be too late. Now running \$100 million at his own Menlo Park, Calif. firm, Leylegian has gone from 100% stocks at the start of 1983 to 100% cash equivalent right now. Having bought heavily last summer, Leylegian posted a gain of 47% for 1982, and he's not anxious to give any of that back. Says he: "So what if I've left the last 100 points of the rally on the table? A lot of stocks have gotten out beyond economic reality, and I don't want to wake up some morning and find the music's stopped."—T.J.

Hidden gem

Ethyl Corp. is a \$1.6 billion (sales) Richmond-based diversified chemicals producer. Its earnings have been flat for the last four years, and about 30% of profits come from the manufacture of the anti-knock compound for leaded gasoline, a business slowly being regulated out of existence. Ethyl's oil and gas, coal and aluminum extrusion divisions also are lagging. Its stock has doubled and split since early 1982—there are about 40 million shares outstanding—and they recently traded on the Big Board at \$22.50, about 10 times earnings. No bargain, most people would say, but look again, says Jay Harris of New

York's Balis & Zorn. He thinks Ethyl has "a spectacular asset, which is totally ignored in its stock price." This gem is First Colony Life Insurance, acquired last year for \$270 million in cash and preferred. By 1985, Harris predicts, the insurer will account for some 35% of income, vs. just 25% in 1983. Whereas the rest of Ethyl will have only 10% growth in the Eighties, First Colony's will be 20%-plus—more than offsetting the anti-knock decline. "Anybody still worried about where Ethyl will go after anti-knock is a step behind," says Harris. "It already has made the right move. The time to buy is now."—T.J.

Don't count your roses ...

We are indebted for this piece of wisdom to a tough old Wall Streeter: "Don't try to smell the roses when the horse hasn't yet dropped the manure." We've cleaned up his language a bit, but you get the point. He's referring to the habit analysts have of raising earnings estimates when stock prices go up; if there aren't any earnings, they project them for the future and then tell you the stock's a buy on the basis of something that hasn't happened yet. Manure by any other name is still manure.—T.J.

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Bruce Vorhauer's spermicidal sponge looks like a hot product, but not as hot as the stock in Bruce Vorhauer's company.

Everybody wants in

By John Merwin

SCENE: Obstetrics and gynecology convention last spring. Gynecologist buttonholes Dr. Bruce Vorhauer, who just received Food & Drug Administration approval of a new over-the-counter contraceptive device, and asks, "When will it be available?"

"We'll be on the shelf July 1," Vorhauer says proudly.

"No! No!" says the impatient gynecologist. "Not the product. I mean when will *your stock* be available?"

When a gynecologist gets more excited about a public offering than the birth control product behind it, you know he can't be alone. Scores of investment bankers and venture capitalists have implored Vorhauer for a piece of his company, VLI Inc. So have several thousand individuals, with cash in hand, even though VLI hasn't turned a dime in sales. VLI is unlikely to go public before late 1983. When it does, VLI may already have become a household word.

The excitement revolves around a fairly simple sponge a woman can insert as many as 24 hours before sex. The sponge is made in part of time-released spermicide, offering an edge over diaphragms and other contraceptives that require application of spermicide by users. The market for non-pill contraceptives is estimated at \$50 million. The pill market is far larger.

Right now VLI is closely held by Vorhauer, a few physicians and 75 institutional investors who have put \$15 million into the firm. Its \$1 sponge, trademarked "Today," should appear anyday now, despite attempts by a New York consumer group to get the FDA to withdraw approval because of health questions. The sponge is scheduled to hit stores in the West

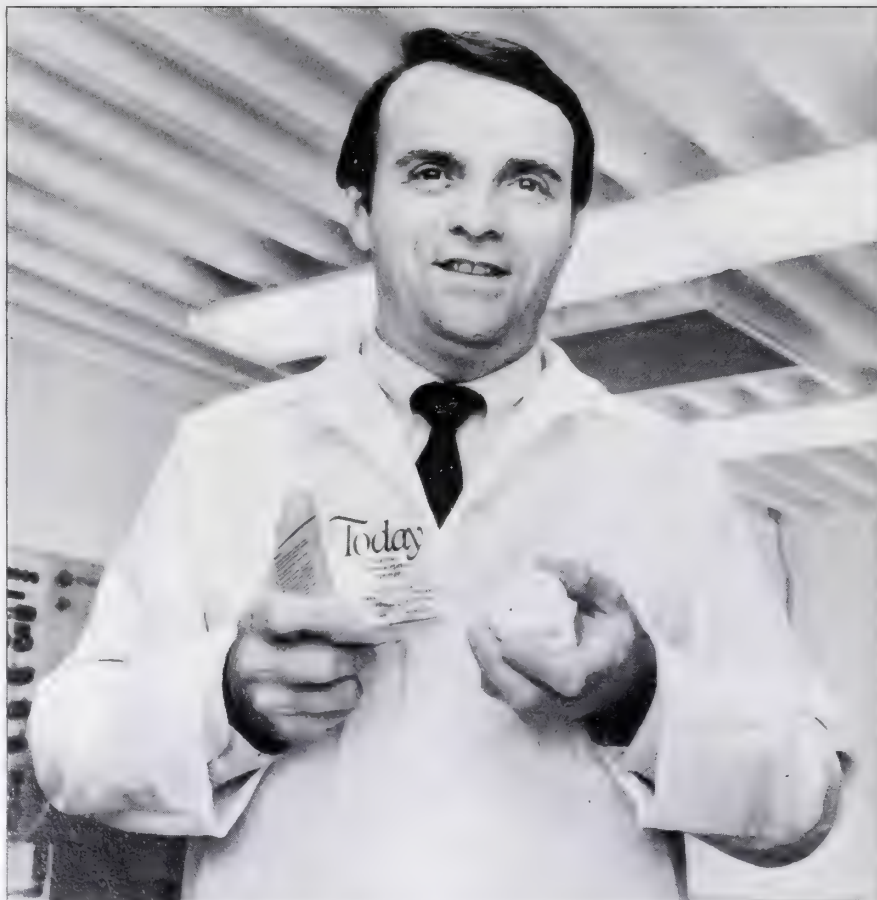
July 1 and in the East Sept. 1.

The clamor is all the more remarkable because VLI very nearly collapsed two years ago. Despite the promise of its product, VLI had been able to raise money only with great difficulty. Syntex and Johnson & Johnson gave Vorhauer the brush-off, although G.D. Searle and Schering-Plough, in the late 1970s, did advance VLI several hundreds of thousands of

dollars before nervously backing out of deals to acquire VLI. Executives at Johnson & Johnson, whose Ortho division will become VLI's main target, even snickered, Vorhauer says. "I wonder if they're laughing now?" he asks, grinning.

Even Hambrecht & Quist, the San Francisco investment bankers and new-issue leaders, backed off a tentative commitment to take VLI public. Instead, Hambrecht shifted to an April private offering at \$10 a share, which was oversubscribed, leaving H&Q redfaced. Vorhauer, a Ph.D. in biomedical engineering, got the sponge idea in a casual conversation with a gynecologist. Vorhauer was working for American Hospital Supply, and he advanced the idea at a 1975 presentation to company executives in Chicago. His boss, Chairman Karl Bays, was irritated. "Bruce, I wish I knew you were screwing around with this idea," Vorhauer remembers Bays growling, "We don't want in that business." Vorhauer adds: "The whole room got quiet. I folded everything up, put it back in my case and sat down."

In a few days Vorhauer rounded up \$400,000 seed money for his sponge



VLI Corp.'s founder, Dr. Bruce Vorhauer
"Today" can't arrive too soon for Wall Street.

venture and then quit American Hospital Supply. He rented an Orange County, Calif. office for \$100 a month and ran experiments at night in his kitchen. He hit on the right combination of spermicide and liquid polymer to form a spermicidal sponge. When dampened with tap water, the sponge begins to release the sperm killer.

Testing took years. By the summer of 1981 VLI was flat busted. A gynecologist buddy, Dr. Earl Fuller, came to the rescue. He called a dozen physicians to his Orange County home to hear Vorhauer's plea for cash. "I want you to bring your wives," Fuller told them. He adds: "Their wives were telling them on the spot what a great idea it was. They wrote checks for \$250,000 that night and later brought in \$250,000 more." Though venture capital funds eventually put up the \$15 million necessary to bring Today to the shelf, it was the Orange County doctors' wives who really saved the company.

Though VLI still has \$10 million in the bank, sizable marketing and inventory expenditures lie just ahead, as do the hazards of producing millions of sponges with newly designed machinery. Vorhauer will use manufacturers' reps to distribute his product and direct the fight for retail shelf space. That means carving it out of an opponent's allotment, not so easy when the opponent is Johnson & Johnson's Ortho division, one of the ablest marketers around.

Vorhauer counters that VLI's FDA approval will protect him for about three years while he searches for new sponge uses. Hedging against a one-product future, Vorhauer's company is developing a second use for the sponge—delivering medication directly and continuously to vaginal infections. The antibiotic sponge could become a more important product than the spermicidal sponge.

At 41, Vorhauer is sitting pretty. Though his stake in the company lately has been diluted to 11%, it's still worth about \$4 million at prices set by the latest private financing. When VLI goes public, that stake will be worth far more. Yet Vorhauer is plainly aware that can't-miss companies do, on occasion, miss, particularly in markets demanding faultless production from inexperienced producers, while facing the likes of Johnson & Johnson.

Says Vorhauer, quoting a Kenny Rogers song: *Never count your money, while sittin' at the table. There'll be time enough for countin', when the deal is done.* "We're still sittin' at the table," he says. ■

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SYMBOL	QTY	PRICE	MARKET	ADJ. PRICE	MARKET	ADJ. PRICE	MARKET	ADJ. PRICE	MARKET
*****TRADING*****									
A	100	10.00	1000	10.00	1000	10.00	1000	10.00	1000
B	200	20.00	2000	20.00	2000	20.00	2000	20.00	2000
C	300	30.00	3000	30.00	3000	30.00	3000	30.00	3000
D	400	40.00	4000	40.00	4000	40.00	4000	40.00	4000
E	500	50.00	5000	50.00	5000	50.00	5000	50.00	5000
F	600	60.00	6000	60.00	6000	60.00	6000	60.00	6000
G	700	70.00	7000	70.00	7000	70.00	7000	70.00	7000
H	800	80.00	8000	80.00	8000	80.00	8000	80.00	8000
I	900	90.00	9000	90.00	9000	90.00	9000	90.00	9000
J	1000	100.00	10000	100.00	10000	100.00	10000	100.00	10000
K	1100	110.00	11000	110.00	11000	110.00	11000	110.00	11000
L	1200	120.00	12000	120.00	12000	120.00	12000	120.00	12000
M	1300	130.00	13000	130.00	13000	130.00	13000	130.00	13000
N	1400	140.00	14000	140.00	14000	140.00	14000	140.00	14000
O	1500	150.00	15000	150.00	15000	150.00	15000	150.00	15000
P	1600	160.00	16000	160.00	16000	160.00	16000	160.00	16000
Q	1700	170.00	17000	170.00	17000	170.00	17000	170.00	17000
R	1800	180.00	18000	180.00	18000	180.00	18000	180.00	18000
S	1900	190.00	19000	190.00	19000	190.00	19000	190.00	19000
T	2000	200.00	20000	200.00	20000	200.00	20000	200.00	20000
U	2100	210.00	21000	210.00	21000	210.00	21000	210.00	21000
V	2200	220.00	22000	220.00	22000	220.00	22000	220.00	22000
W	2300	230.00	23000	230.00	23000	230.00	23000	230.00	23000
X	2400	240.00	24000	240.00	24000	240.00	24000	240.00	24000
Y	2500	250.00	25000	250.00	25000	250.00	25000	250.00	25000
Z	2600	260.00	26000	260.00	26000	260.00	26000	260.00	26000
AA	2700	270.00	27000	270.00	27000	270.00	27000	270.00	27000
AB	2800	280.00	28000	280.00	28000	280.00	28000	280.00	28000
AC	2900	290.00	29000	290.00	29000	290.00	29000	290.00	29000
AD	3000	300.00	30000	300.00	30000	300.00	30000	300.00	30000
AE	3100	310.00	31000	310.00	31000	310.00	31000	310.00	31000
AF	3200	320.00	32000	320.00	32000	320.00	32000	320.00	32000
AG	3300	330.00	33000	330.00	33000	330.00	33000	330.00	33000
AH	3400	340.00	34000	340.00	34000	340.00	34000	340.00	34000
AI	3500	350.00	35000	350.00	35000	350.00	35000	350.00	35000
AJ	3600	360.00	36000	360.00	36000	360.00	36000	360.00	36000
AK	3700	370.00	37000	370.00	37000	370.00	37000	370.00	37000
AL	3800	380.00	38000	380.00	38000	380.00	38000	380.00	38000
AM	3900	390.00	39000	390.00	39000	390.00	39000	390.00	39000
AN	4000	400.00	40000	400.00	40000	400.00	40000	400.00	40000
AO	4100	410.00	41000	410.00	41000	410.00	41000	410.00	41000
AP	4200	420.00	42000	420.00	42000	420.00	42000	420.00	42000
AQ	4300	430.00	43000	430.00	43000	430.00	43000	430.00	43000
AR	4400	440.00	44000	440.00	44000	440.00	44000	440.00	44000
AS	4500	450.00	45000	450.00	45000	450.00	45000	450.00	45000
AT	4600	460.00	46000	460.00	46000	460.00	46000	460.00	46000
AU	4700	470.00	47000	470.00	47000	470.00	47000	470.00	47000
AV	4800	480.00	48000	480.00	48000	480.00	48000	480.00	48000
AW	4900	490.00	49000	490.00	49000	490.00	49000	490.00	49000
AX	5000	500.00	50000	500.00	50000	500.00	50000	500.00	50000
AY	5100	510.00	51000	510.00	51000	510.00	51000	510.00	51000
AZ	5200	520.00	52000	520.00	52000	520.00	52000	520.00	52000
BA	5300	530.00	53000	530.00	53000	530.00	53000	530.00	53000
BB	5400	540.00	54000	540.00	54000	540.00	54000	540.00	54000
BC	5500	550.00	55000	550.00	55000	550.00	55000	550.00	55000
BD	5600	560.00	56000	560.00	56000	560.00	56000	560.00	56000
BE	5700	570.00	57000	570.00	57000	570.00	57000	570.00	57000
BF	5800	580.00	58000	580.00	58000	580.00	58000	580.00	58000
BG	5900	590.00	59000	590.00	59000	590.00	59000	590.00	59000
BH	6000	600.00	60000	600.00	60000	600.00	60000	600.00	60000
BI	6100	610.00	61000	610.00	61000	610.00	61000	610.00	61000
BJ	6200	620.00	62000	620.00	62000	620.00	62000	620.00	62000
BK	6300	630.00	63000	630.00	63000	630.00	63000	630.00	63000
BL	6400	640.00	64000	640.00	64000	640.00	64000	640.00	64000
BM	6500	650.00	65000	650.00	65000	650.00	65000	650.00	65000
BN	6600	660.00	66000	660.00	66000	660.00	66000	660.00	66000
BO	6700	670.00	67000	670.00	67000	670.00	67000	670.00	67000
BP	6800	680.00	68000	680.00	68000	680.00	68000	680.00	68000
BQ	6900	690.00	69000	690.00	69000	690.00	69000	690.00	69000
BR	7000	700.00	70000	700.00	70000	700.00	70000	700.00	70000
BS	7100	710.00	71000	710.00	71000	710.00	71000	710.00	71000
BT	7200	720.00	72000	720.00	72000	720.00	72000	720.00	72000
BU	7300	730.00	73000	730.00	73000	730.00	73000	730.00	73000
BV	7400	740.00	74000	740.00	74000	740.00	74000	740.00	74000
BW	7500	750.00	75000	750.00	75000	750.00	75000	750.00	75000
BX	7600	760.00	76000	760.00	76000	760.00	76000	760.00	76000
BY	7700	770.00	77000	770.00	77000	770.00	77000	770.00	77000
BZ	7800	780.00	78000	780.00	78000	780.00	78000	780.00	78000
CA	7900	790.00	79000	790.00	79000	790.00	79000	790.00	79000
CB	8000	800.00	80000	800.00	80000	800.00	80000	800.00	80000
CC	8100	810.00	81000	810.00	81000	810.00	81000	810.00	81000
CD	8200	820.00	82000	820.00	82000	820.00	82000	820.00	82000
CE	8300	830.00	83000	830.00	83000	830.00	83000	830.00	83000
CF	8400	840.00	84000	840.00	84000	840.00	84000	840.00	84000
CG	8500	850.00	85000	850.00	85000	850.00	85000	850.00	85000
CH	8600	860.00	86000	860.00	86000	860.00	86000	860.00	86000
CI	8700	870.00	87000	870.00	87000	870.00	87000	870.00	87000
CJ	8800	880.00	88000	880.00	88000	880.00	88000	880.00	88000
CK	8900	890.00	89000	890.00	89000	890.00	89000	890.00	89000
CL	9000	900.00	90000	900.00	90000	900.00	90000	900.00	90000
CM	9100	910.00	91000	910.00	91000	910.00	91000	910.00	91000
CN	9200	920.00	92000	920.00	92000	920.00	92000	920.00	92000
CO	9300	930.00	93000	930.00	93000	930.00	93000	930.00	93000
CP	9400	940.00	94000	940.00	94000	940.00	94000	940.00	94000
CQ	9500	950.00	95000	950.00	95000	950.00	95000	950.00	95000
CR	9600	960.00	96000	960.00	96000	960.00	96000	960.00	96000
CS	9700	970.00	97000	970.00	97000	970.00	97000	970.00	97000
CT	9800	980.00	98000	980.00	98000	980.00	98000	980.00	98000
CU	9900	990.00	99000	990.00	99000	990.00	99000	990.00	99000
CV	10000	1000.00	100000	1000.00	100000	1000.00	100000	1000.00	100000
AW	10100	1010.00	101000	1					

VALUED SECURITIES LONG									
SYMBOL	QTY	PRICE	MARKET	ADJ. PRICE	MARKET	ADJ. PRICE	MARKET	ADJ. PRICE	MARKET
*****TRADING*****									
A	100	10.00	1000	10.00	1000	10.00	1000	10.00	1000
B	200	20.00	2000	20.00	2000	20.00	2000	20.00	2000
C	300	30.00	3000	30.00	3000	30.00	3000	30.00	3000
D	400	40.00	4000	40.00	4000	40.00	4000	40.00	4000
E	500	50.00	5000	50.00	5000	50.00	5000	50.00	5000
F	600	60.00	6000	60.00	6000	60.00	6000	60.00	6000
G	700	70.00	7000	70.00	7000	70.00	7000	70.00	7000
H	800	80.00	8000	80.00	8000	80.00	8000	80.00	8000
I	900	90.00	9000	90.00	9000	90.00	9000	90.00	9000
J	1000	100.00	10000	100.00	10000	100.00	10000	100.00	10000
K	1100	110.00	11000	110.00	11000	110.00	11000	110.00	11000
L	1200	120.00	12000	120.00	12000	120.00	12000	120.00	12000
M	1300	130.00	13000	130.00	13000	130.00	13000	130.00	13000
N	1400	140.00	14000	140.00	14000	140.00	14000	140.00	14000
O	1500	150.00	15000	150.00	15000	150.00	15000	150.00	15000
P	1600	160.00	16000	160.00	16000	160.00	16000	160.00	16000
Q	1700	170.00	17000	170.00	17000	170.00	17000	170.00	17000
R	1800	180.00	18000	180.00	18000	180.00	18000	180.00	18000
S	1900	190.00	19000	190.00					

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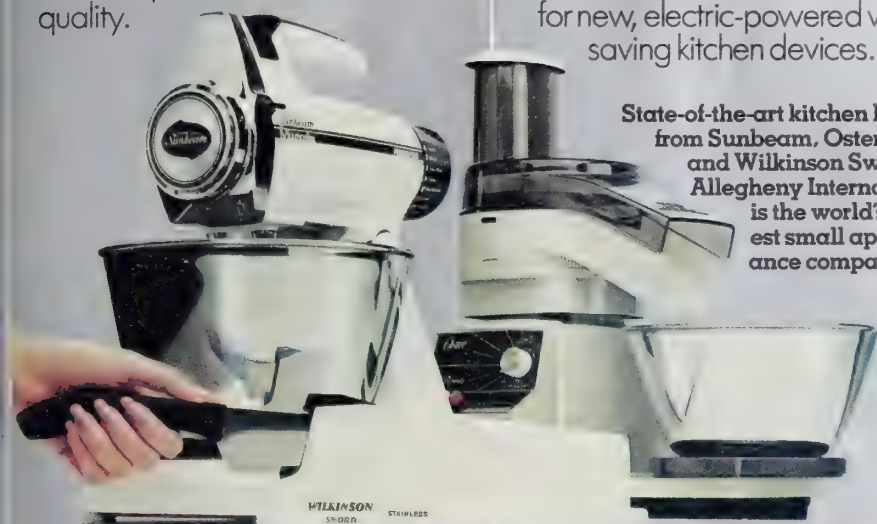


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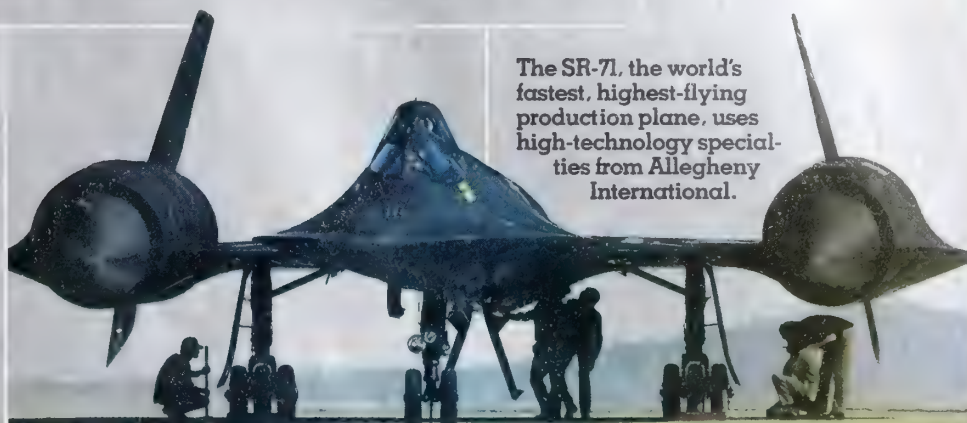


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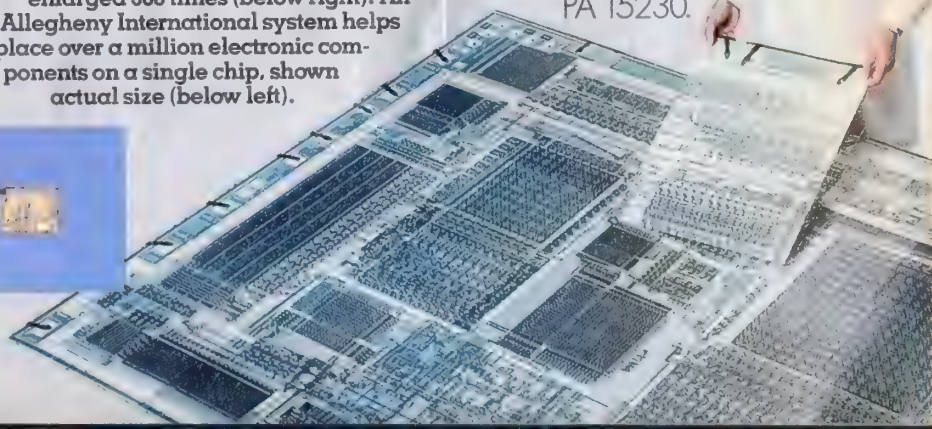
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This model of a microprocessor chip is enlarged 300 times (below right). An Allegheny International system helps place over a million electronic components on a single chip, shown actual size (below left).



Jack Nicklaus has made over \$4 million playing golf. But Charles Perry has made him millions more.

The man behind the Golden Bear

By Richard Greene

BY 1976 JACK NICKLAUS was widely acclaimed as one of the greatest golfers ever. At 36 he had won the Masters five times, the U.S. Open three times and the British Open twice. He had amassed a total of

\$3 million in prize money from golf tournaments, all for hitting a little white ball farther and more accurately than anybody else.

But Nicklaus was in tough financial shape. Like many celebrities for whom the money comes in fast and free, his investment strategy made no

sense. He had put his winnings in a hodgepodge of radio stations, automobile dealerships, car rental companies and travel agencies. He did not understand those businesses, and he was not making money.

Now, just seven years later, Nicklaus may well be the richest athlete in history. He has a cleverly integrated portfolio of investments, including four closely held companies (in insurance, oil and gas, golf products and community security) with annual revenues of about \$78 million. And that's just the spin on the golf ball. Income also flows from golf course designing, publishing, and licensed products that bear Nicklaus' name. Last comes the loose change from winning occasional golf tournaments: \$232,645 in 1982.

What's he worth? It's anybody's guess, but outsiders bandy about a figure of \$300 million a year in total revenues. There's little question, however, that Nicklaus' miniconglomerate nets tens of millions yearly.

So what happened between 1976 and 1983 to turn Jack Nicklaus from a



Golf superstar Jack Nicklaus and his business manager Charles Perry

"It's in everybody's interests," says Perry, "to know Jack is the majority partner and I'm the minority partner."

financial duffer into a real pro? Give the credit to business manager Charles Perry, a 46-year-old West Virginian, who is the wizard behind Nicklaus' new wealth. An example of the Perry style: These days he's cleverly capitalizing on the real estate that surrounds golf courses. Nicklaus designs a new course or refurbishes an old one, meanwhile picking up a large parcel of adjoining land on which he puts up luxury villas. The income statement hits a hole in one.

Putting together transactions like this has made Perry a rich man, too. In addition to a generous salary, he gets an automatic equity interest of between 10% and 30% in every Nicklaus deal, and he sometimes can increase that to 40% as long as his interest does not outweigh Nicklaus'. "In some cases I'm a substantial minority shareholder, but in no case am I a majority shareholder, and that's the way it should be," says Perry. "I am not an independent entrepreneur, and Jack is the majority partner."

As Perry talks about his relationship with Nicklaus, he repeatedly points out that the golfer is the boss, that Nicklaus knows the details of every deal. Perry, in fact, is smart

"The demographics of golf make it a very marketable field," says Perry. "If you're trying to sell a \$500 sport coat, you're generally not going to sell it to a bowler."

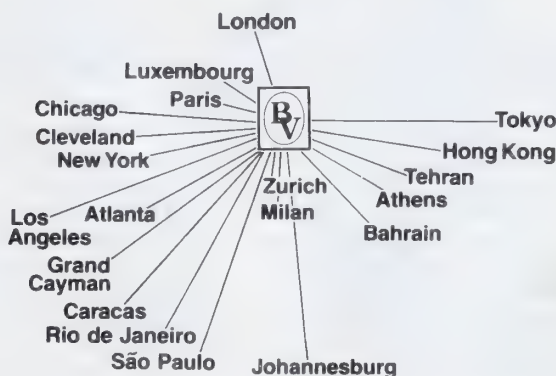
enough to know that the route to success in working with Nicklaus is in subordinating his own ego. For many men that would be a trauma. But Perry has been successful enough in his short career to subdue the normal need for self-aggrandizement.

His spectacular rise began in the Detroit public school system. While Perry was working as a teacher and part-time coach, the president of his alma mater, Ohio's Bowling Green State University, asked him to come to work in the school's admissions department. Perry accepted and parlayed that into a position as special assistant for education to the governor of Florida. Ultimately, Perry was named head of Florida International University. At 31, he was the youngest man ever to become president of a state college.

There Perry refined the business tactics that have worked so well for Nicklaus. "We were opening a school of hotel services, and I wanted to hire away an associate dean from Cor-

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Banking Sector	38 972
Loans Banking Sector	27 831
Bonds Issued	
Mortgage Sector	60 143
Loans	
Mortgage Sector	61 033
Capital Resources	2 398
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Branches	471

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Profiles

nell," he recalls. "Everybody said that I couldn't get him because he liked Ithaca. So I waited until the coldest period in the winter, and I called him up. I said I wanted to send first-class tickets for him and his wife to come down to Florida and visit. I got him."

Perry put in seven years at FIU and then decided it was time for a new challenge—and more money. He found a job with Charter Oil's publications group as publisher of *Family Weekly* and a consultant to its other publications. But Charter soon decided to sell *Family Weekly*, and after persuading a group of newspapers to buy it for \$20 million, Perry was in the job market again.

Through an executive recruiter he got an offer from Nicklaus. The golfer had left well-known financial adviser Mark McCormick a few years earlier, when he reportedly decided that two other McCormick clients, Arnold Palmer and Gary Player, were getting more attention than he was. Nicklaus hired a replacement, who put together a loose-knit confederation of investments that wasn't working out well enough to suit Nicklaus. So he was shopping for yet another manager.

Perry worried that this job would make him "an agent for some jock." But he quickly saw the potential of Nicklaus' name as an untapped resource. Not only was his new boss a well-known athlete, he was also involved in a sport that lent itself to clever exploitation. "The demographics of golf make it a very marketable field," says Perry. "If you're trying to sell a \$500 sport coat, you're generally not going to sell it to a bowler."

Of course, the obvious way to cash in on Jack Nicklaus would have been to stick his name on every golf club, T-shirt, plastic toy or collector's edition dinner plate around. But Perry said no. "The philosophy of most managers is that while you're hot you make as much money as you can, as long as someone will pay you. Our philosophy is to build brand identities around Jack with only quality lines. We believe that the Jack Nicklaus lines can have viability long after Jack quits playing. And long after Jack's death."

But the licensed products and the endorsements, now worth easily \$5 million a year to Nicklaus, were the easy part. Perry wanted much more. And the first thing he had to do was to get Nicklaus organized. "Marketing was in Austin," Perry explains. "Financial services were in Ft. Wayne;

auditing was in Detroit; legal was in Columbus, Ohio. We brought the central control of all our operating companies to North Palm Beach, where Jack lives."

This time around, Nicklaus' money was not going to all sorts of ill-conceived investments. Some holdings may not seem to fit, but they do. The wholly owned oil and gas company, for example, provides a great tax shelter; the insurance company is always good for a loan.

And most of the Nicklaus Organization's possessions are directly tied to the business of golf. Companies Nicklaus owns can provide every golf course service from design to running the concession stands. But the really big potential profits come from the real estate deals that are attached to the golf courses.

When Nicklaus played the Memorial Tournament in Dublin, Ohio a few weeks ago, for example, he was playing amidst some 1,700 acres speckled with high-priced homes that should bring in \$64 million in total revenues. Similar golf communities are current-

ly planned near Jackson, Miss. and Kansas City, Mo. and in Riverside County, Calif.

And that's just the beginning. Perry's latest project involves rehabilitating old, unprofitable golf courses in exchange for a chunk of land on which golf villas will be built and sold. The prototype for these deals is nearing completion in Hastings-on-Hudson, N.Y., about 35 minutes from Manhattan. There Nicklaus and Perry and other investors put in about \$6 million to rehabilitate the St. Andrews Golf Course, the oldest golf course in the country. In exchange for refurbishing the entire course, Nicklaus and company are getting sufficient land to build 225 villas that are already selling briskly at a starting price of \$350,000.

The only problem with the deal, from Perry's point of view, is that his group had to put up the \$6 million. In the future, Perry will try to get investors to put up all the cash. "This is the kind of thing that is going to turn us into a business of significance," he concludes. ■

Some folks juggle balls. But here's a country boy who juggles insurance companies. It's a spectacular feat—as long as nothing falls.

The amazing Mr. Shaw

By Pamela Sherrid

TELEVISION NEWS cameras were rolling when Kentucky regulators, aided by a squad of state troopers, seized Robert Shaw's three small life insurance companies in 1972. Shaw, a smart country boy from Arkansas, was ultimately vindicated in what became a major local real estate scandal. But that media event helps explain why he has carefully avoided publicity ever since. "Back then, my enemies put me on the first page without my wanting to be," Shaw says in his lively drawl.

These days, however, Shaw's empire is so big that he can't escape attention. He controls Louisville-based ICH Corp., a holding company that owns 16 insurance companies with total assets of about \$1.4 billion. In May ICH doubled its size by acquiring Great Southern Life from American General for \$250 million. Profits have risen rapidly from \$2.8 million in 1977 to \$14 million in 1982. ICH shares, traded on the American Stock Exchange, have more than doubled in price over the past 12 months.

Shaw, 48, a high school graduate who once sold ornamental ironwork

for a living, still doesn't care to hobnob with the horsey, close-knit Kentucky business establishment. But he is far richer than many who do. With two partners, he controls 23% of ICH, worth well over \$50 million.

Insurance caught Shaw's eye in the mid-Sixties, when small, shaky life companies were proliferating. Helped by a friendly banker and a public stock offering, he formed American Pyramid Corp. "It was a corporation set up to buy insurers," Shaw explains, "the same thing I've been doing ever since."

He reasoned that it is cheaper to acquire policies in force than to have agents write the same business. And Shaw's specialty is slashing expenses—consolidating home offices, reducing staff and wringing out profits where there were often none before. For example, the company where Shaw keeps his modest headquarters had 42 employees when he bought it in 1967. Five years later the same staff administered five different companies with eight times the assets.

Shaw's other technique for growth is more controversial: using part of the assets of one insurance company to help buy control of another. "Pyramiding" has a bad name for a good reason. Insurance assets are there to back up the claims of policyholders. A chain of companies—in which one owns another—hides the inherent leverage. And a small problem anywhere along the line can play havoc lots of places at once. Another temptation is overvaluing investments in related firms, a tactic that led to Baldwin-United's downfall.

State regulators require that most ICH subsidiaries carry investments in other insurance companies at close to their statutory net worth—a conservative number that ignores whatever premium Shaw may have paid to get control. The stability of Shaw's pyramid, then, depends on managing all of his companies effectively. Shaw is like a juggler who has to keep all of his balls in the air at once—and so far he has done that well.

In his early days Shaw could only afford to buy into small, troubled companies. "He had a knack for knowing where the Achilles' heel was so that he could gain control," says Roy Woodall, executive vice president of the National Association of Life Insurance Cos. Shaw got one company away from a chief executive with a drinking problem, another from an owner in trouble with the law, a third from a man whose stock was collateral for a bad loan. His expansion was possible largely because

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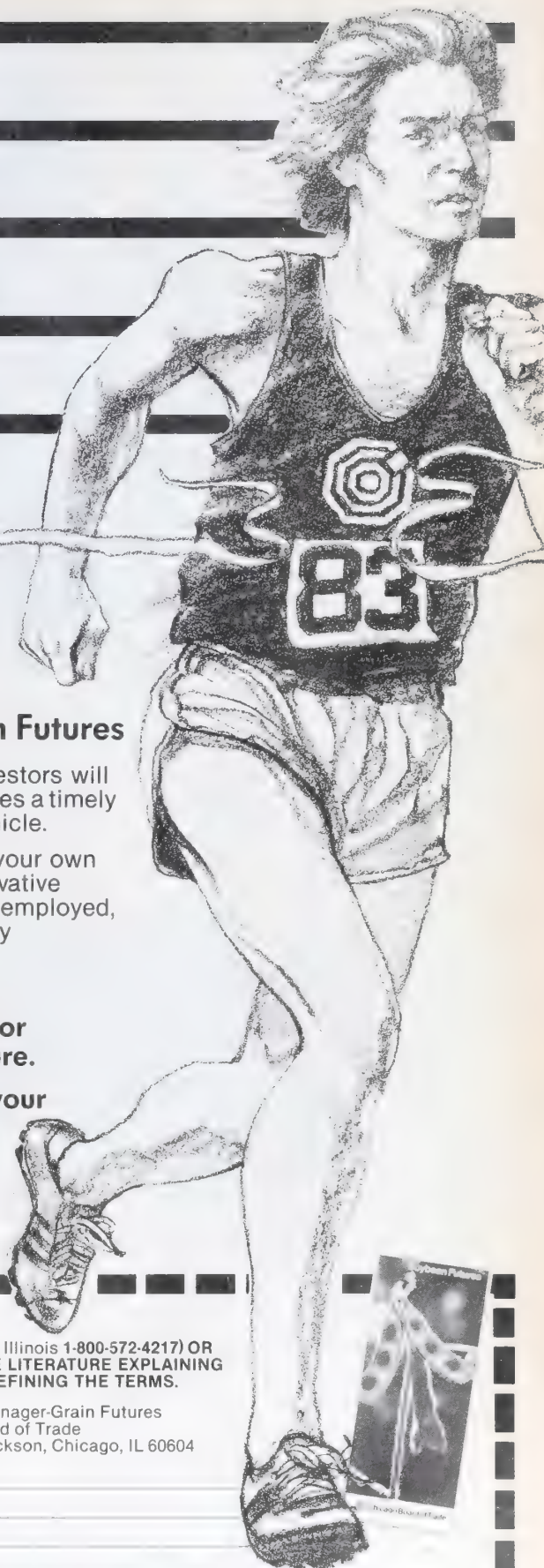
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of the Bank of Louisville, whose chairman, Samuel Klein, took a liking to Shaw when other lenders wouldn't talk to him. "Bob has the keenest mind I've ever done business with," says Klein, now 77.

Because ICH is a holding company, most of its income comes from life insurance subsidiaries. Of necessity, Shaw uses a number of strategies to maximize cash flow. One of the slickest converts aftertax dividends into deductible interest payments. In 1978, for example, ICH purchased 50% of Great Commonwealth, a Texas-based company with \$125 million in assets. Shaw paid \$13 million, \$10 million of which was borrowed. At that time his main operating unit was Ozark National, with assets of only \$78 million.

To make the takeover work, ICH sold Great Commonwealth to Ozark for a \$13 million surplus debenture. This made the principal payable only out of additions to Ozark's net worth. ICH, of course, still had to pay the bank, but interest payments on the debenture reduced Ozark's income, saving taxes. Shaw's round face gets gleeful as he explains this scheme, since replicated a handful of times. "We used the future profits of Ozark to buy another company," he says.

ICH's premium income topped \$131 million last year, and until recently almost all the growth has come from acquisitions. Premium income on existing business was declining, even as profits rose, largely because many of Shaw's early acquisitions lacked a sales force. But now Shaw can afford better. He has strong agency networks, for example, at Modern American and Massachusetts General. Buying Mass General also brought in a new chief operating officer: John Gardiner, formerly a senior vice president at John Hancock.

Shaw clearly wants to make ICH more respectable, but the expediciencies of the past still haunt him. In a first step to simplify his web of interlocking companies, last year he exchanged ICH stock for minority interests in the ten subsidiaries that were only partially owned. That triggered several lawsuits from bought-out shareholders, claiming that the exchange ratios were too low.

Then there are ICH's interesting service contracts. Shaw exercises control through four other companies (see chart). These handle many administrative tasks at a tidy profit. The compensation of Shaw and one long-term associate—three-fourths of 1% of gross income, or \$1.7 million including a bonus last year—also flows



Robert Shaw of ICH Corp

He doesn't care about the horsey set; he's too busy getting rich.

through those companies. And getting paid that way gives Shaw a powerful incentive to keep acquiring, regardless of profitability.

He argues, however, that his incentive as a shareholder is stronger. Over the years, for example, Shaw has got-

ten rid of blocks of unprofitable insurance, mostly accident and health policies. Still, last year Shaw imposed a ceiling that in effect freezes total fee income at 1981 levels, a move that seems designed to quell critics.

The recent Great Southern acquisition, which propels Shaw into the big time, reveals him at his canniest. The \$250 million purchase price includes \$80 million in cash—but most of that money is coming from Great Southern itself. Shaw is selling it two of his other companies for \$60 million. Texas regulators approved the deal, even though Great Southern must write down statutory equity by \$30 million because Shaw promised an annual 20% return on the investment.

All this brings ICH \$170 million debt and raises debt/equity ratio to 1.2. That's staggering in an industry in which the average is well below 0.35. Shaw, of course, is sure that he will pull off the deal with room to spare. A soon-to-be-completed computer consolidation will save millions, he says. And a revised tax basis for Great Southern will yield tax losses over ten years equal to the entire \$250 million purchase price.

Though the risks are hand-wringing, this combination of operating efficiency and financing wizardry has worked in the past. If Shaw can keep juggling his investments so well, he may soon be known as one of the classiest financial performers around. But a major fumble could bring his empire crashing down. ■

The chain of command

Shaw controls ICH through four companies. The structure was even more complicated before ICH bought out minority interests in ten subsidiaries.

Robert Shaw	55%
Consolidated National Corp. (private)	71%
Independence National Corp. (o-t-c)	73%
American Consolidated Corp. (o-t-c)	83%
Western Pioneer Life Insurance Co. (o-t-c)	50%
ICH Corp. (American Exchange)	
Sole ownership of 16 life insurance companies with total assets of \$1.4 billion, including Great Southern, Modern American and Massachusetts General.	

A sign to remember.

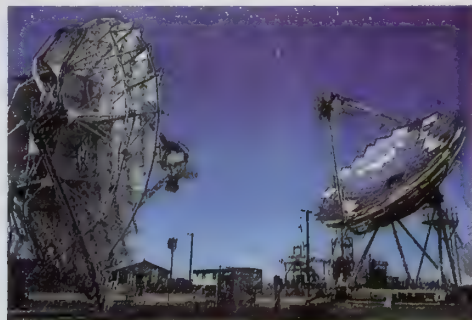


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We are also well known in the automotive industry thanks to our Car-O-Liner, an advanced and totally Swedish-made aligning bench for damaged vehicles. Car-O-Liner's acceptance by the American automotive body repair industry has been spectacular, with sales of the unit doubling in each succeeding year since the system was introduced in the US in 1979.

Our two companies United Stirling, Inc. and Stirling Power Systems, Corp. are developing the Stirling engine concept in co-operation with American researchers. You may have noticed the results of the solar energy experiments with engines from United Stirling, Inc. During tests at the NASA Jet Propulsion Laboratory in California a total system efficiency close to 30% has been achieved – by far a world-record in conversion of solar energy into electricity.

FFV is a Swedish industrial group working at a high technical level. We are 8,500 employees at 50 locations in 10 countries. In other words – if you are working in a high-tech-business this is A SIGN TO REMEMBER.

FFV

– technology is our strength

If you want to know more about us, please write to FFV Information, S-631 87 Eskilstuna, Sweden.



At Mazda's daily *Morning Market*, a fully assembled engine is selected at random and broken down for a detailed quality inspection by foremen and other workers.

QUALITY IS NOW THE GOAL OF ALL AUTOMAKERS.
WHAT MAKES MAZDA QUALITY UNIQUE IS
THE PROFOUND COMMITMENT OF THE PEOPLE BEHIND IT.

THE EVOLUTION OF QUALITY

An automobile's quality is only as high as the quality of work that goes into it.

This is a singularly appealing thought if you are now considering buying a Mazda.

Because over the years, our people have demonstrated a deep and abiding sense of commitment to the quality of their work.

And this commitment is clearly evident in both the high quality and reasonable cost of our automobiles.

DETERMINING THE COST OF QUALITY.

The quality and cost of a Mazda automobile is largely determined "upstream," by research, planning and design.

It is here that a design concept called *Group Value Engineering* proves invaluable.

A typical Mazda G.V.E. project team will include people from a variety of disciplines—engineers, designers, layout planners, and people

from cost control and purchasing, for example. Their job is to analyze and compare various design alternatives. And to arrive at the one design which best meets specific development objectives while also providing the highest possible quality at the lowest possible cost.

MAZDA'S QUALITY EVOLUTION.

A Mazda's quality and cost is also determined "downstream,"

during production.

Here our people, workers and management alike, provide an edge in quality that is difficult to come by.

By adhering to thousands of quality standards that we've established for the work that goes into a Mazda, our people build quality into our automobiles at each step in the production process.

In a sense, they treat each other as customers. For just as we will not sell an automobile that hasn't met quality standards, they will not allow sub-standard work to move forward to the next person on the assembly line. In fact, workers can bring the assembly line to a



By pressing a button, workers can call for assistance or even halt the assembly line.

meet in small groups to solve a variety of job-related problems. In the process, they gain a strong sense of personal accomplishment and mutual respect for fellow workers. Moreover, their involvement results in the continuous evolution of the quality of work at Mazda.

FEWER STEPS ON THE ASSEMBLY LINE.

Consider how the ten members of the Young Craftsmanship MQ Circle improved the quality of their work, and their work environment.

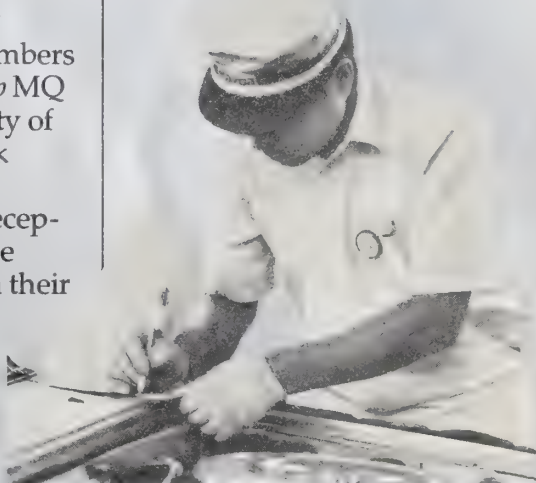
Their objective was deceptively simple: to reduce the walking distance between their supplies of parts and the points on the assembly line where the parts are used.

The distance wasn't far. A little more than eleven steps. But over 3½ months, Circle members, working with their supervisor, succeeded in reducing the distance to fewer than seven steps.

dramatic results.

For example, a tighter bunching of parts supplies eliminated two assembly line work stations and freed space for future operations.

Also, as the result of more precisely standardized assembly procedures developed by Circle members, the per vehicle



By meeting quality standards, our people build quality into our automobiles at each step in production.

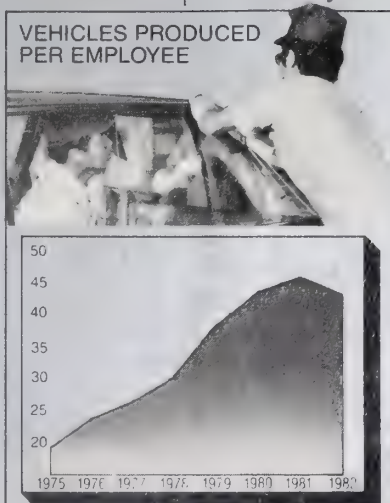
OF MAZDA

halt simply by pressing a button should the situation warrant it.

Our people have also assumed responsibility for improving the quality of the work procedures used to meet production standards.

More than 18,000 Mazda people demonstrate this responsibility through voluntary participation in Mazda Quality Circles. Circle members

And reduced a walk of about six miles a day to one of only about 3½ miles.



Mazda productivity has risen 126.4% over the past seven years.

ANOTHER QUALITY EDGE FOR MAZDA.

But a shorter walk isn't all that was accomplished. Circle members contributed more than 240 ideas aimed at improving the quality of their work. And the adoption of their ideas had

defect rate—.0078 to start with—was further reduced by 48.7%. Which provides another edge in quality for Mazda.

By meeting quality standards, and actively seeking ways to improve work procedures, our people continue to prove that *commitment to quality* isn't just an abstract concept.

It's a tangible part of every Mazda—an expression of conscience on the part of people who care enough to achieve the highest quality possible.

mazda

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Management at department store chain Mercantile Stores just gave itself a nice, cozy, takeover-proofing arrangement. The stockholders like it just fine:

No Superior Oil situation here

By Howard Rudnitsky

THE ANNUAL MEETING is held each year in offices on the 11th floor of the Corporation Trust Co. building in Wilmington, Del. There is no sign or listing telling an investor where the Mercantile Stores floor or room is located. One must ask the security guard downstairs.

The meetings are over in little more than five minutes, and, according to

management, only seven people usually attend: management (five), the auditor's representative and outside legal counsel. No nonmanagement directors and rarely any investors. So what's the big deal, you may ask, over a private company? Nothing, but this



one is public. True, 40% of Mercantile Stores' recently split 14.7 million shares are closely held, but there are around 6,000 other investors and the stock is listed on the NYSE.

There's usually little business to transact and no discussion of how the various divisions of the 84-department-store, \$1.4 billion (sales) chain are doing, so it's understandable that no one wants to bother traveling to Wilmington for five minutes. It's not exactly the fun spot of the East.

Just who is Mercantile? Though run out of New York (and incorporated in Delaware), it has most of its stores in the suburbs of medium-size to small cities in the South and Midwest under names like Gayfers, Castner Knott, McAlpin's, Bacons, Joslins and Jones.

The controlling 40% (5.9 million shares) is owned beneficially by the founding Milliken family and by Harold W. Jockers, 76, and F.G. Kingsley, 87, longtime associates of the Milliken family.

It was a Milliken, along with other creditors, that more than 60 years ago reorganized a large wholesale dry goods firm—H.B. Claflin Co.—that had gone under owing what was then a huge \$42 million. Claflin's eventually became two new chains: Mercan-



Mercantile Stores' Bacons department store at the Galleria in Louisville, Ky.

Top stores in smaller markets pay off for Mercantile. Roger Milliken (above), his family and other investors.

tile Stores and Associated Dry Goods.

The Millikens cast their lot with Mercantile, and the long investment has clearly turned out well. Mercantile's stock was selling for about \$62 a share recently, making the Milliken interests' holdings worth a whopping \$368 million.

The Millikens also own all of one of the largest private companies extant—giant textilemaker Milliken & Co. of Spartanburg, S.C., with sales estimated at between \$1.5 billion and \$2 billion. Led by 67-year-old Roger Milliken, they are used to running their own show and decidedly prefer to maintain a very low profile.

Still, stockholders might have had some reason to turn out this year. It seems the company was concerned that it might be vulnerable to an unfriendly takeover, if you can imagine that. At least that's what the proxy said, although the proxy also essentially said management knew of no one secretly buying up big blocks of Mercantile stock or trying to effect a merger now.

The board proposed that a takeover must be approved by a 75% vote of the shareholders, instead of by simple majority, and that directors have three-year staggered terms. At least management didn't ask for any golden parachutes, but apparently enough is enough.

From the outset it was clear that at least 40% of Mercantile's shares would vote for all the amendments. But with control virtually assured, why bother? Others with similar concerns seem less worried. Zayre's, another big retailer, in which the founding Feldberg family owns less than 20%, recently passed noticeably less-extreme antitakeover measures.

The unstated reason: No big Milliken sellout appears imminent, but the Milliken interests nowadays are trustees for scores of trusts, some of which are for second- and third-generation Millikens. There may be some family members who want to sell shares because the dividend income from the stock wasn't high enough (the payout ratio averages under 20%), or in order to settle estates. The controlling block appears to be splitting into too many pieces for a few Milliken patriarchs to control easily.

Leon Winbigler, Mercantile's 57-year-old chairman, doesn't deny that possibility. But he is quick to insist that "I don't know what the family has in mind. It was management that looked into and brought the changes in the corporate bylaws to the attention of the Milliken people, not the other way around."

Yet of 5.24 million pre-split shares voting, a lopsided 4.5 million voted for the 75% requirement, with only 388,000 against and 343,000 abstaining. Other so-called shark repellent amendments drew an even smaller negative vote.

What are Mercantile's outside stockholders getting that keeps them so quiet? Mainly, a very solid company. Mercantile Stores puts a heavy emphasis on soft goods and private-label merchandise, catering mostly to the middle-to-upper-middle-class customer, and had record earnings

last year of almost \$70 million on its sales of \$1.4 billion. Recession profits were up by 20% over the previous record year, and Mercantile's return on sales was a splendid 4.9%.

Over the past decade, sales and earnings before acquisitions have grown at a compounded 12% or so; 1983's earnings are up one-third in the first quarter, and the dividend rate was upped by 25%. And the stock is up fourfold since 1980.

Here, then, is the magic formula for having docile outside stockholders: Treat 'em right in the first place. ■

How can a big, stodgy company shake the "Montgomery Ward mentality"? Metropolitan Life is trying the acquisition route.

A new aria at the Met

By Ben Weberman
and Robert McGough

IN 1964, WHEN The Prudential Insurance Co. applied to the Securities & Exchange Commission to sell variable annuity policies, Metropolitan Life Insurance Co. executives shook their heads in dismay. Investing policyholder's premiums in the stock market was obviously a dangerous innovation. "Our people felt it was a mistake to have a product based on common stock investments," recalls Metropolitan's current President and CEO John J. Creedon.

Times change. This year Metropolitan will start selling a new version of its variable annuity policy. It now owns the nation's second-largest investment counselor, Boston's State Street Research & Management. And if you ask Creedon why he doesn't also want to get into the stock brokerage business outright à la the Pru with Bache, he responds. "When did I say I didn't want to get into brokerage?"

The only reason he can't, indeed, is New York State law, which prohibits insurers from acquiring brokers. That may be only temporary (Governor

Mario Cuomo has introduced a bill to do something about it). In the meantime, \$56 billion (assets) Metropolitan is moving everywhere it can to overcome decades of stagnation.

Back in the 1940s Metropolitan was the largest insurance company in the nation, with the Pru a distant second. Now, Prudential's \$67 billion assets are 20% greater than Metropolitan's. How did it happen? The Met became a prisoner of its own successful history. It came out of the Great Depression in sound shape because it followed a conservative, fixed-income investing philosophy and refused to change it when the times changed. Metropolitan had what was known then as a "Montgomery Ward mentality," after the retailer whose chairman, Sewell Avery, virtually turned it into a bank out of fear of another depression.

Successive Metropolitan managements did little to reverse the trend until Richard Shinn, who retired last February as chairman and chief executive officer, decided to devote the last four years of his tenure to bringing the Met into the era of equities, equity-based insurance products and aggressive portfolio management.



Metropolitan Life's John Creedon and Robert Schwartz
Changing the culture of a company.

Shinn has left behind two hand-picked successors: Robert G. Schwartz as chairman and chief investment officer and Creedon as president and CEO, both career Metropolitan employees.

The most important step so far has been the acquisition of State Street and its portfolio of \$11 billion under management. Metropolitan paid \$85 million in cash last January to State Street's partners, most of them Boston blue bloods, who stayed on to run the operation. The 27 partners can get up to \$42 million more in bonuses, depending on performance over the next five years. What is Metropolitan getting for that hefty price? Creedon

likes to do a little addition: Add State Street to Metropolitan's \$56 billion assets, and it nearly closes the asset gap with \$67 billion Prudential. That's not entirely accurate, of course, since it doesn't include assets managed by Prudential-Bache. The real significance is in the entree State Street gives the Met into big-time equity financial services.

For example, the management firm will handle much of the equity portions of Metropolitan's separate-account pools of pension fund clients. (In a separate account, the insurer manages the money, but the client, in return for a say in the investment and reduced fees, takes the market risk).

Mutual funds, another subject Metropolitan has avoided, are also an area for teamwork. State Street runs three open-end mutual funds whose shares could be sold publicly, under the Metropolitan name, by means of a simple filing with the SEC.

"What the Met has that we need is marketing capability," says George Bennett, president of State Street. For the Met's part, says Creedon, "we needed to get into equities but decided internal expansion was not practical. We would have had to build an internal organization with a different philosophy" than the fixed-income, security-of-principal one that has reigned since the Depression. "Sometimes it's as hard to turn men's minds as it is to turn entire companies."

Solid and conservative itself, State Street seems a good match for Metropolitan. Anything flashier might send the old insurer into shock. Of State Street's \$9 billion in equity investments, about 75% is in big-company blue chips. High technology? Bennett is cautious. "Most of those stocks have made quite a move already," he says. Consumer-related marketing companies, even energy and heavy manufacturing, might be better because "some of them have taken a heavy beating; it could mean they've been overlooked."

Bennett is proud of State Street's performance in big pension accounts—up 145% in five years and 70% in three years, versus gains of 93% and 53% respectively in the S&P's 500. Computer Directions Advisors, which tracks 149 big money managers, shows State Street near the median recently—a 49.4% gain in the 12 months ended Mar. 31.

Shinn, Schwartz and Creedon have been changing the Metropolitan culture in other ways, too. The company got out of debit insurance in January 1982 by treating debit policies as fully paid. This was less costly than supporting its traditional work force, which collected the pennies-a-week premiums on small, Depression-type life policies. Under Shinn the company moved into auto and homeowner insurance in the early Seventies; last year these two lines generated \$366 million in premiums.

Clearly, the Met is playing catch-up ball. It has a long way to go to close the gap with Prudential—let alone prompt Merrill Lynch or Citicorp to look over its shoulder. But it's a start. As Creedon says, "For a long time you just didn't mention the word 'profit' in mutual life companies." Now all that has changed. It is a big change indeed. ■

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E.T.'s novelty-store "finger" is made of the same stuff as Dr. Michael DeBakey's favorite new surgical tubing. One company makes both products.

"We can't afford failures"



Concept Chairman Terry F. Tanner and President James T. Treace
"The products were good, but we tried to compete in too many arenas."

By Paul B. Brown

Over the past 18 months the price on shares in tiny Concept, Inc., has more than trebled, to about \$16, or 40 times earnings. That would please executives of most companies, but then, for better or worse, Concept, in Clearwater, Fla., is unlike most companies. At most, the founder and chairman would not spend part of every day working down the road as another company's doctor, as Concept's chairman did until recently. At most companies the move into technologically advanced medical products would not be financed by the likes of disposable flashlights and "E.T." novelties. And most companies don't have a new thermoplastic, referred to jokingly as "Son of Flubber," that has caused at least one analyst to predict a tenfold increase in sales—now \$20 million a year—within five years.

Concept as it exists today differs from what Chairman Terry F. Tanner, then a 36-year-old country doctor in Auburndale, Fla., had in mind when he decided to go into business 20 years ago. "I always was interested in making more efficient medical products," says Tanner. While Tanner knew that he wanted to go into the medical supply business, he didn't know what he wanted to supply. A meeting at his house one Saturday afternoon took care of that.

"I invited 15 or so doctor and dentist friends for a brainstorming session," Tanner recalls. "I wanted to see what the medical world was waiting for. Our first product came from an idea from a dentist who complained that he was always running out of batteries for the flashlight he used during examinations. He said, 'Why don't you make a flashlight you can throw away when the batteries are gone?'"

The next day Concept's only other employee—an engineer hired away from Honeywell, where Tanner was company doctor—built a prototype of a disposable flashlight, and Concept, Inc. was born.

In the coming years other products appeared the same way: Doctors would tell Tanner of a need, and the company would fill it. The flashlight for dentists was turned into the cornerstone of a consumer products division. By 1979 medical and nonmedical sales totaled \$11 million.

Profits, however, came hard. "Concept was being led by the research

division. That made sense. That's what built the company and was in keeping with the company's name," says James T. Treace, Concept's president and chief executive officer. "The problem was that the people doing the research and developing never thought about whether the marketing guys could sell it."

That caught up with Concept in 1980. The company in 1979 had earned \$700,000 on \$11 million in sales. The next year it lost \$2.3 million, and in 1981 it squeezed out a \$170,000 profit only after heroic surgery on marketing, research and development costs. Treace doesn't deny that a \$5.8 million stock offering in 1981 was the only thing that kept the company going.

It was shortly after that stock offering that Concept hired Treace, then 35, from Richards Medical Company, Inc. in Memphis, an orthopedic and microsurgical subsidiary of Rorer Group. Treace had been second in command of the \$70 million division, and becoming top dog at a company with sales of just \$9 million a year wasn't cause for love at first sight.

"Concept's image in the industry was smoky," Treace recalls. "The products they made were good, but they were trying to compete in too many arenas."

But Treace finally took the job for more money and for stock options now worth about \$500,000. He decided to concentrate on businesses in which his experience made him comfortable: orthopedics and microsurgery. Specialists in each buy \$150 million to \$200 million worth of equipment a year, and the equipment sales are increasing by at least 25% a year. Concept sold its other businesses. After stripping Concept down, Treace added to the professional medical sales force—it now numbers about 25—to end the company's reliance on outside dealers.

Hiring the sales force, creating a marketing division and beefing up research and development has cost money. Some of it will come from the \$8 million or so Concept should receive by the time 1.2 million warrants to purchase shares of the company at \$7 each are exercised.

The warrants were sold in Concept's 1981 stock offering and are now expiring. In the more distant future, specialty medical products will be financed by Concept's consumer division, which contributed one-third of earnings last year with such products as the disposable flashlight and E.T.'s finger light (an elongated digit, with a light on the end of it, that attaches to

a finger). Treace concedes that such gimmickry offends Concept's concept of medical specialization. But there is something good to be said about the gimmicks, too: namely, that they make a lot of money—too much money right now to justify the sale or the spinoff of the consumer division.

"It's not really big enough to be called a cash cow; it's more of a cash goat," Treace jokes. "But the fact is, it throws off a lot of money and it doesn't take very much of management time."

But look again. E.T.'s finger is really out of this world, after all. For it was made of C-Flex (Concept flexible plastic), a thermoplastic designed to compete with silicon and polyvinyl chloride. The additives that make PVC flexible enough for such diverse applications as meat wrapping and intravenous tubing can cause cancer in laboratory animals, according to some Food & Drug Administration studies. Concept developed C-Flex as a less irritating cuff for the tube used to keep a patient's windpipe open during surgery, but the company has found other uses for C-Flex, too. C-Flex does cost roughly twice as much as PVC. Yet a favorable review of C-Flex in heart surgery, by surgeon Michael DeBakey and Dr. George Noon, has excited securities analysts and others. If the use of PVC were restricted, they ask, wouldn't C-Flex grab a bigger chunk of the market?

To that, Treace responds cautiously. "I wouldn't bet my house on anything the FDA might or might not do, especially putting restrictions on PVC," he says. "I am certainly not going to bet Concept's house on C-Flex. I don't think we will be a replacement for PVC. However, I think it will be very competitive with silicon." The medical market for silicon amounts to some \$1 billion. C-Flex is now going into mass production.

With the restructuring of the medical division, Treace has created the company he wanted. "I think you will see the results trickling in in the fourth quarter," he says. The quarter ends Aug. 31. The real test, he adds, will be the 1984 results. He expects that year to be a winner. "Right now," he says, "I would pay our current share price for any of three major product lines we have: orthopedic, microsurgery and C-flex."

Treace, after all, was hired to turn the company around, and he's talking as if he has done it. If he hasn't, Concept's stock price may drop as fast as it has risen—or faster. As Treace himself observes, "At our critical mass, we can't afford any failures."

Up from the cradle



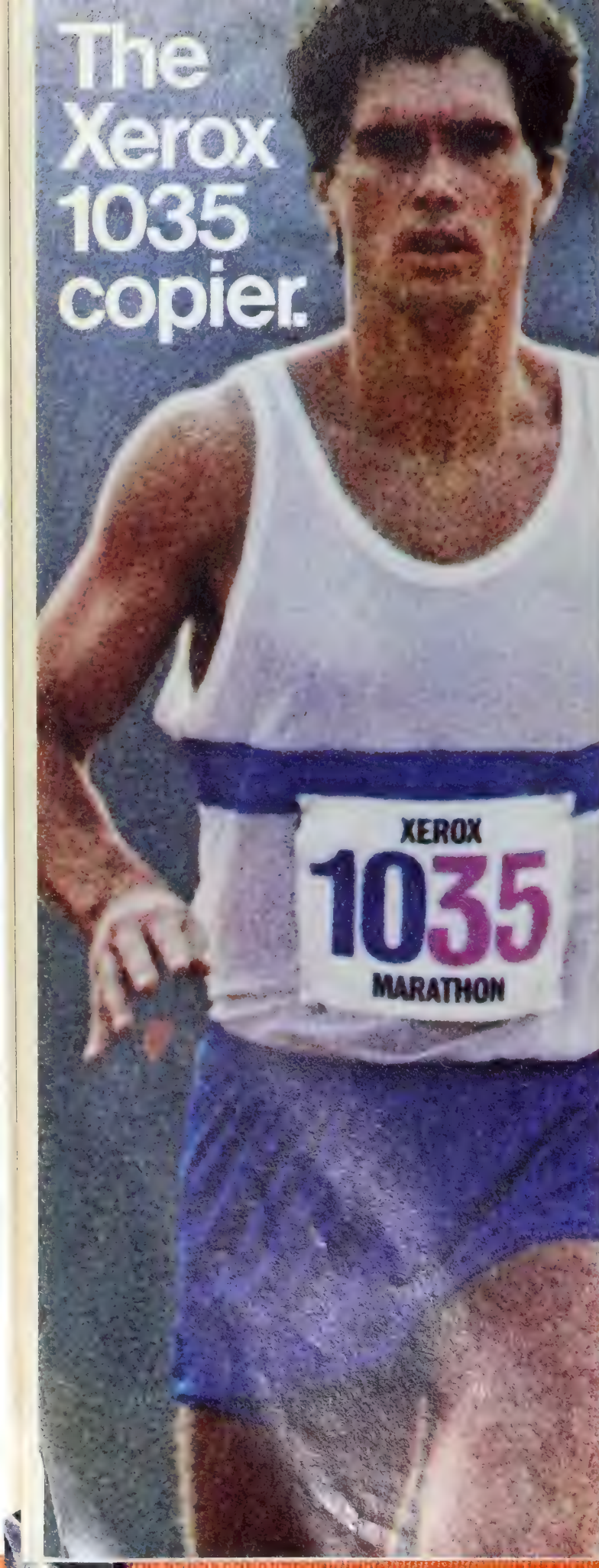
Blessings CEO David Lewis

Doing what no one else wants to.

Blessings Corp. may long be remembered as the diaper service company that survived Pampers, but David Lewis, chief executive officer of the Piscataway, N.J. firm, talks as if he would just as soon forget it. "That's just one of four arms of our company," Lewis says. To underscore the point, Blessings banishes its diapering operations to the rear section of its annual report.

Blessings remains the country's biggest diaper service firm. And with the growing geriatric market for what the industry terms "incontinence products," diapering may well be a growth industry. Still, Lewis is probably right to emphasize Blessings' strengths outside baby diapers. Its plastic film division, a manufacturer of health care and agricultural plastics with sales of \$24 million a year, actually generated half of the \$8 million of Blessings' overall sales growth in 1982. Plastics, the Geri-Care division (adult diapers) and *Baby Talk* magazine together earned 66% of total operating profits on less than half of Blessings' overall revenues. Baby diapering accounted for the cub's share of the profits.

Not that being the country's largest diaper service—Blessings has 28% of the \$120 million market—is anything to be ashamed of in the age of Huggies, Luvs, Pampers and other disposables, which soak up 80% of the market. Yet even the recent baby boomlet amounts to only a tick upward, to 3.6



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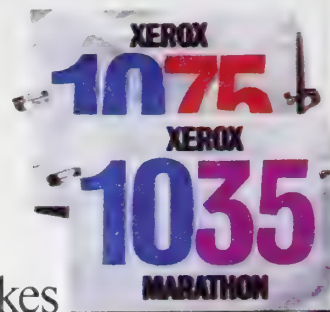
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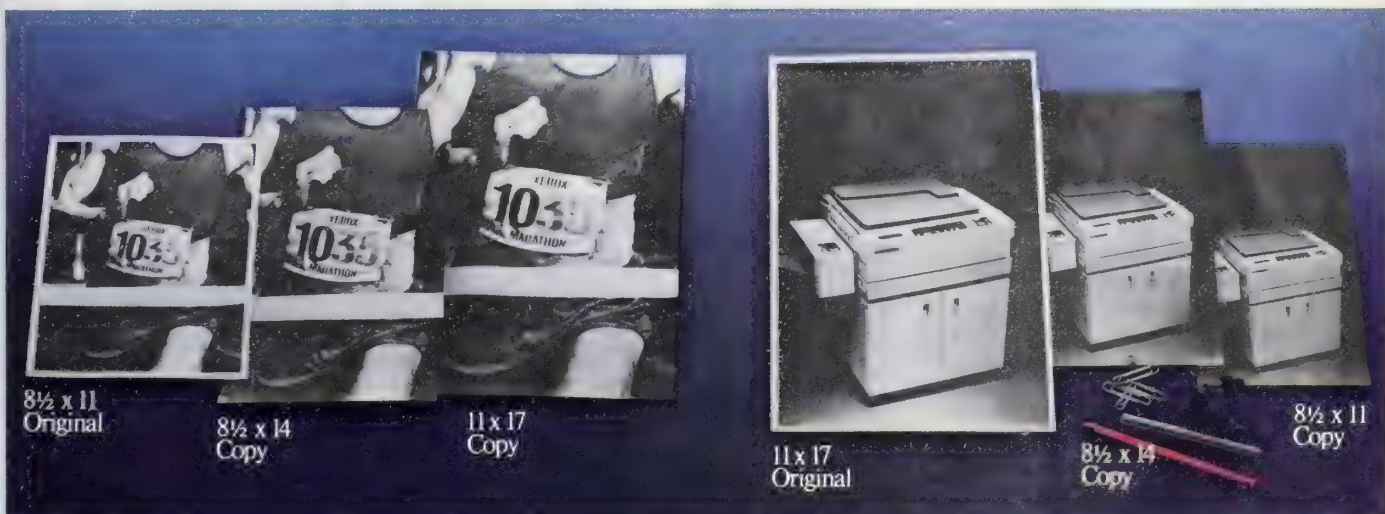


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The Up & Comers

million births in 1982, about 20% under the country's peak 1957 birth year (FORBES, Nov. 22, 1982).

Morris Bonoff, whose father owned a laundry service, started Blessings 50 years ago during the Depression. Bonoff needed to support his family, and he asked himself: What could I do that nobody else wants to do and just might pay for? Answer: wash diapers. So Bonoff entered the diaper biz. Shortly afterward, he started *Baby Talk* magazine for his customers.

During the post-World War II baby boom the business thrived. And because diapering brings upfront cash, Bonoff found himself with lots of spare funds. He used it to buy other diaperers.

Procter & Gamble's introduction of Pampers in 1966 panicked the entire industry. Bonoff hastily diversified. "He bought strange little businesses like a dental supply company and another firm that made surgical face masks," says Lewis. "They dragged the company down." In 1974 Blessings reported a \$4.4 million loss on sales of \$47 million.

The next year Lewis was hired to succeed Bonoff, by then 73. Lewis figures that as a graduate of Yale and Harvard Law he was eminently qualified for the diaper biz. Lewis had worked at West Point-Pepperell and International Paper and brought with him to Blessings an old protégé, James Luke, a financial specialist. Together, Lewis and Luke set about simplifying the company.

Preferred Dental, Blessings' dental supply catalog, was one of the first to go. It was losing \$400,000 a year, and it was liquidated. Lewis decided that *Baby Talk* was overstaffed. "We kept the three key people and fired everyone else"—about two dozen employees, Lewis says. "Earnings have increased every year since."

In the end, four businesses were trimmed, leaving Blessings almost where it had started back in the 1930s—as a diaper service company with a baby magazine. The only addition was a small plastics business, today Blessings' strongest division. Its sales last year increased by 21%, while operating earnings rose 42%. That followed a 65% increase in operating earnings in 1981.

Little Blessings competes with the likes of Union Carbide, Monsanto and Mobil in commodity plastics by serving specialty markets the big companies avoid. Blessings controls 70% of the \$8.5 million market for plastic

outer shields for hospital bed pads and more than 80% of the \$5 million plastic market for sanitary pads. Blessings even sells to makers of disposable diapers. "If we didn't do it," Lewis says, "someone else would."

The future of Blessings, Lewis says, lies in geriatrics. While Blessings' diaper services battle for customers and skimpy 6% operating margins, \$9 million (sales) Geri-Care (with 80% of its business in incontinence products and the rest in the manufacture of baby diapers) enjoyed a 13% operating margin in 1982, a 24% increase in operating profits and a 30% increase in sales. Started in 1978, Geri-Care sells its lines to linen supply and textile companies for use in hospitals and

nursing homes. But Lewis thinks the home market could be bigger, possibly \$5 billion. He estimates there are 6 million home-nursed incontinent. Many others now in nursing homes could live at home, he says, if convenient incontinence products were made available.

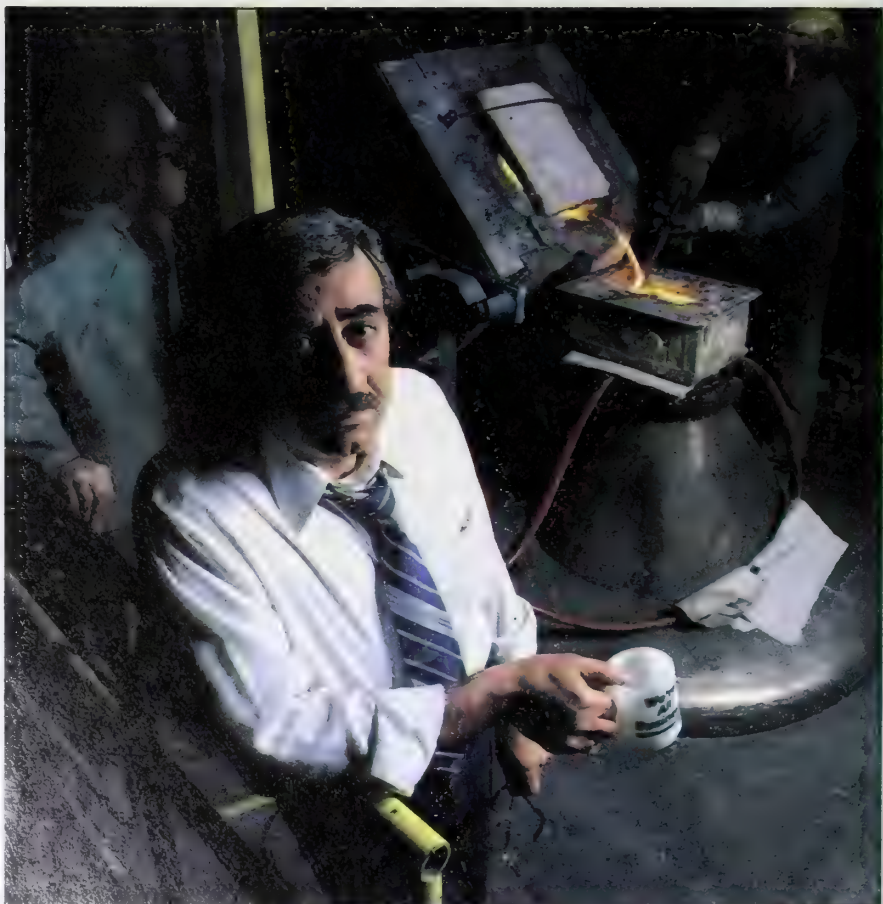
But the market won't be an easy one to tap. Blessings faces competition from Procter & Gamble, now marketing a disposable adult diaper. And how do you sell adult diapers, disposable or not, to homebound oldsters? Maybe the answer lies in Blessings' existing baby-diaper services' trucks and routes. But as Lewis says, "Our future is at the other end of the age span."—Laura Rohmann

The best little mill in Pittsburgh

Nobody in his right mind would have started a steel mill in Pittsburgh in 1980, right? So, when Vince DiGiambattista of New Jersey showed up in a suburban Pittsburgh neighborhood to rent a building that had been used as a pornography warehouse and announced he was going to build a steel mill, the neighbors sneered with disbelief. "You can imag-

ine what they thought," DiGiambattista says.

Today, while most of the rest of the American steel industry still languishes in recession, DiGiambattista's Worl-Tech Metals & Composites Corp. is running at a profit. The reasons are simple. DiGiambattista, a metallurgist, found a rather arcane niche in the steel market that could



Worl-Tech's Vince DiGiambattista
"We will always be the best."

be exploited with advanced technology and gambled a few hundred thousand dollars to build a tiny mill that takes only four persons to run—himself, his wife and two employees.

Worl-Tech produces steel in powder form, perhaps the finest steel powder available in the world. The powder, already alloyed with chromium, molybdenum and tungsten, is then heated up to 1800 degrees Fahrenheit before it is extruded, or forced into a mold, to form billets of steel. The billets are first sold to specialty steel companies for rolling, then to manufacturers who turn them into the highest-quality cutting tools and dies. The billets are the company's main products, but it also sells nickel and cobalt powders. DiGiambattista, who holds seven patents in powder metallurgy, got interested in the technology in 1957, when he worked for the Naval Reactor Board. Later he perfected a new process for manufacturing tool steel from powders that, in reducing the number of steps in the process and improving the yield of raw materials, makes it possible to produce powdered steel profitably in small quantities. One trick calls for liquid nitrogen, which can very rapidly cool molten steel to produce a finer-grained powder and, hence, a harder, higher-quality tool.

In April 1980, when DiGiambattista was working as executive vice president of Coast Metals Corp., he decided to use his expertise in powders to start his own business. "My friends told me that it was a bad time to start a business," he says, "but I contend that there are always an unlimited number of reasons for not going into business." He started Worl-Tech with \$20,000 of his savings and \$200,000 from a bank loan that he personally guaranteed. It helped to get the loan that he already had a contract to turn out about \$300,000 worth of tool steel. In 1981 Worl-Tech, still privately held, earned \$144,000 after taxes on sales of only \$458,000. But by April 1982 Worl-Tech was on the brink of bankruptcy.

What happened? Economic disaster visited the metals industry that year. "Nobody was buying steel of any type, including tool steels," DiGiambattista recalls. A small order from Latrobe Steel kept Worl-Tech barely afloat, but old-fashioned hard work turned the rest of the trick. DiGiambattista once worked for 53 days running. "I worked 12- to 14-hour days," he says. "When your back is against the wall, you throw both your mind and your body into the work." He can't refrain from adding that such

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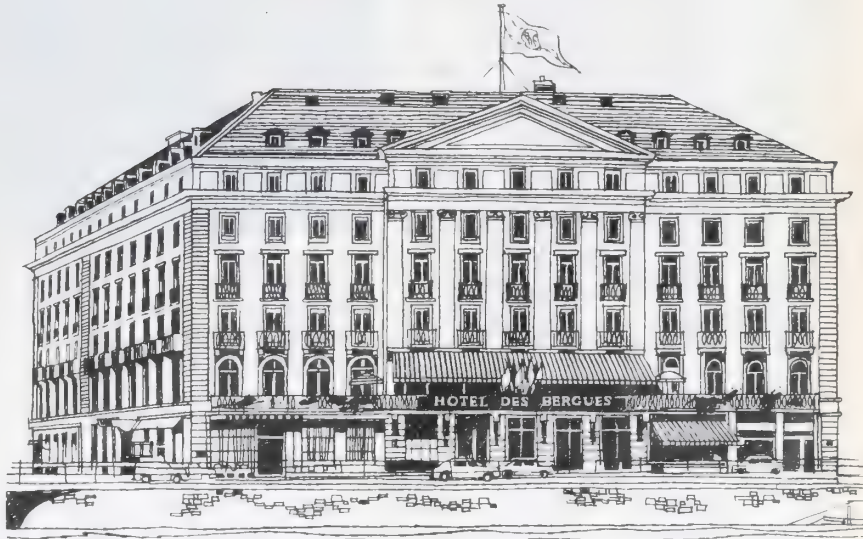
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The Up & Comers

zeal in the steel business generally is notable only for its absence.

Last year Worl-Tech produced only 200,000 pounds of steel with its capacity of 500,000 pounds. But sales have increased recently, and, although they amounted to only \$250,000 in the first quarter, DiGiambattista expects \$3.5 million by the end of the year. The company sells a billet of its tool steel for an average of \$6 a pound. The raw materials cost up to \$3.50 a pound, and it costs \$1.08 to process them. That leaves a gross profit of \$1.42 a pound.

Worl-Tech has little real competition in much of its market. DiGiambattista, who prefers working on the platform, where the steel gets poured, to sitting behind a desk, says, "Our steel is in demand because of its extremely high quality."

As for his laggard competitors, he says, "They have had no capital investment for years. Is it any wonder that 56% of our tool steel comes from overseas? The steel industry must regain its position of prominence by striving for excellence. For 20 years it acted like it had no competition, and when it discovered that it indeed had competition, it didn't want to compete. We will never be a giant mill," adds DiGiambattista "but we will always be the best."—Stanley W. Angrist

Our endangered forests

Government paperwork continues to be a major problem for small business," begins a letter from the U.S. Small Business Administration announcing a series of hearings on the subject.

The letter is accompanied by the notice of the hearings that appeared in the Federal Register and by a copy of the Paperwork Reduction Act of 1980. The Act is 15 pages long.—P.B.B.

"We don't need money"

Before FORBES' printer could produce this page, they handtaped pieces of film containing type and illustrations onto a large single paper carrier that is used to produce a single sheet of positive film. The film positive is then exposed to make a lithographic printing plate. Although the manual process, called stripping, is tedious and labor-intensive, some big magazine and book publishers still use it. But Jack Wally, 70, a former *Life* contributing photographer, is one of those who have managed to automate

Opti-Copy, Inc.'s founder Jack Wally and President Joe Wally
"Okay, we got lemons, let's make lemonade."



the stripping process. His privately held Opti-Copy, Inc., in Lenexa, Kans., sells a camera Wally invented in the early 1970s that projects type and illustrations directly onto the prepress film used to create the plate. In seven years Opti-Copy's sales have grown to \$8.5 million a year, from \$500,000.

Wally's camera was years in the making. He hit on the idea way back in the early 1950s, after his father persuaded him to give up photography as a career and take over the family blueprint business in Kansas City, Mo. In those days, to copy a blueprint, you still had to apply the transparent hand drawing to a sensitized sheet of paper. Copying was cumbersome and slow.

Tinkering in his basement, Wally designed a 105mm camera to photograph engineering drawings. The drawings on film lost little resolution, and the film was smaller and easier to store than large blueprints. In 1954 Wally began selling his camera to engineering, architectural and other customers who did drafting, such as Mobil, and to the Army Corps of Engineers for making maps. By 1972 his sales had reached \$200,000 a year.

And in 1972 lightning seemed to strike; Wally got a call from Eastman Kodak. The photography giant then was trying to market paper printing plates on which a lens could directly project images to eliminate prepress

stripping and save exposure time. Although large companies such as Information International, Inc. and Harris Corp. were also in the business of automating prepress lithography, after extensive research Kodak's technical staff concluded that the most desirable lens for projecting images onto its plates would be 70mm to 105mm, and Wally's engineering camera was the only 105mm camera on the market at the time. Kodak suggested that Wally design a camera to photograph multiple 105mm images of press-ready pages on one piece of film that would then project directly onto Kodak's plates. The camera would provide another market for Kodak's plates and would push Opti-Copy into the graphics industry, a new field for it. Wally and his son, Joe, a Harvard M.B.A. who had become president of Opti-Copy in 1970, went to work. They invested \$250,000, more than Opti-Copy's net worth, into building a prototype.

A year later the idea that had seemed so promising fell apart. Although Opti-Copy had built the camera, Kodak had failed to come up with a printing plate that would work with the camera. "We said, 'Okay, we got lemons, let's make lemonade,'" says Joe Wally, 41. The Wallys found soon enough that commercial printers were interested in using the camera to automate the stripping process, and the prototype was sold to Kingsport Press, the big Tennessee printer, for \$93,000. Growth came fast after that. Today Joe Wally expects 1983 sales to reach \$13 million.

What next? Opti-Copy is working on a new way to copy and enlarge drawings done on computers. Now, making a hard copy of computer-aided designs is the slowest part of the process. Opti-Copy is perfecting a system that combines a laser plotter with the engineering camera to swiftly make enlargements.

And Kodak is back in the picture. In May Kodak marketed a metal high-speed emulsion printing plate and has asked the Wallys to develop a new graphics camera for it. The camera should appear in September.

With its cozy market niche, its technology and its record of growth, Opti-Copy looks like a company ready to go public. Not so. "Going public is a great ego trip," Joe Wally says, "but it doesn't make any business sense unless you've got a specific need for the money." At a time when companies that have produced little except stock certificates are going public, that's more than refreshing. It's downright inspiring.—Lisa Gross

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Such are the internal contradictions of socialism that Hungary, the Eastern bloc's model economy, cannot make further progress without risking Russian tanks' crunching back into Budapest.

The ultimate chastity belt



V.I. Lenin and Coca-Cola share a Budapest store display
Can political repression and economic freedom coexist?

By Lawrence Minard

SÁNDOR KOMLÓS is a Communist entrepreneur. Last year Komlós, an energetic Hungarian in his late 40s, quit his well-paid textile engineering job to start Horizont Guide, a translation and guide/interpreter business organized under new Hungarian laws aimed at broadening the country's cooperative movement. In its first year in business, Horizont earned 20% on revenues of \$75,000.

Is Komlós happy, proud of his achievement? No. He is depressed. "We have many new ideas to try," he tells us over sandwiches in Horizont's cramped office on Budapest's Victor Hugo Street. "We could make a lot of money. But we're not idiots. If you make too much money here, the wind starts to blow the wrong way. I won't quit, but I wouldn't start Horizont again."

Komlós reflects for a moment and adds: "I feel like I'm supposed to be a good virgin and have a baby at the same time."

How to practice socialism without repressing the human creativity that propels economies forward: This is the dilemma facing Hungary. The country is at a crossroads. Should its leadership slow the economic reforms? Doing so would bring on economic stagnation that would probably result in a reversion to Stalinist centralism. Or should it forge ahead on a new wave of reforms—this time political as well as economic? Doing so would risk the heavy hand of Moscow. Not a pleasant choice. Either way you lose.

There is no question that Hungary's economic reforms—introduced in 1968, renounced in 1973 and reinstituted in 1978—have made Hungary the acceptable face of socialism. The landlocked little country is poor in natural resources. Its population is only 10.7 million, and falling.

Yet Hungary not only feeds itself but also exports a growing agricultural surplus. Hungarian managers have freedom unimaginable throughout the rest of COMECON. So do average citizens. Unlike other Eastern bloc nations, here the state doesn't jail citizens trying to build a house or earn an extra income on the side: Up to a point it encourages such activity. Today only 26% of Hungary's housing stock is state-owned, less than in Britain. Whereas the streets of Moscow are dead and deserted in the evening, Budapest is alive with private shops, jammed with private taxis. There are now around 5,000 private restaurants in Hungary, many of them up to New York or Parisian

standards (FORBES, June 20).

Popular reading among students? "Friedrich Hayek," a Central Committee member tells us, referring to the intellectual father of Western conservative politico-economics.

But don't be misled. In political terms, Hungary remains a good one-party Communist state. "There have been many economic reforms going back to 1957," says Mihály Bihari, formerly a law professor at the prestigious University of Budapest and now head of the higher education department in the Ministry of Culture, "but there have been no political reforms.

"I am quite convinced," Bihari adds, "that economic reforms without political reforms cannot be successfully achieved."

Does the contradiction matter? Isn't Hungary already the happiest of the "socialist democracies"? But it does matter, because Hungary has serious problems that can be solved only with further growth of Hungarian exports. The Hungarian economy is coping with the Western debts taken down to insulate the country from the 1970s' OPEC shocks. Those loans avoided a political crisis that might have resulted from a falling standard of living. But Hungary now groans under \$6.2 billion of these loans, the highest net debt burden, in per capita terms, of all the COMECON states save Poland. Around \$3 billion of its debts mature between now and 1985. With its Western export markets depressed, and after a \$1.3 billion run on its hard currency reserves in early 1982, Hungary was virtually bankrupt.

Last September it was forced to call in the IMF and agree to take the IMF's usual medicine: raise consumer prices, cut imports, raise exports. As a result, capital spending will decline by 10% this year. Real consumer incomes will fall 2%, the first decline in 20 years.

The good news is that the austerity program seems to be working. Hungary's 1982 current account deficit of \$195 million was a vast improvement over 1981's \$727 million deficit. The government's official (and probably unrealistic) projection for 1983 is a \$600 million surplus. Impressed, big Western banks lent Hungary another \$200 million last April.

The bad news is that Hungary's problems run far deeper than the Western recession and the servicing of its debt. As a resource-poor little nation, Hungary depends on trade for growth. Last year around 55% of its GNP came from trade, split about evenly between Eastern and Western partners. Hungary wants to maintain a high level of trade with the West: It

Disintermediation, Hungarian style

Socialist Hungary moved a step closer to capitalism last March when it introduced COMECON's first corporate bond market. First into the market: the Hungarian State Oil & Gas Trust, which floated a \$5 million, 15-year issue to build a natural gas pipeline. With an 11.5% coupon, the freely negotiable obligation was oversubscribed several times. The next offering should take place this summer. Principal investors: other Hungarian enterprises with surplus capital.

Hungary's new bond market is meant to do precisely what Western capital markets do: channel scarce capital resources from less productive to more productive uses. This has been a major problem. With no outlet for any profits they might make, socialist managers are forced to reinvest in their own enterprises regardless of economic prospects. With the bond market they can participate in those sectors of the Hungarian economy where returns are highest. This will raise the whole country's economic efficiency.

Thus far only Hungarian corporations can purchase bonds. That's a pity because there is plenty of cash in private Hungarian hands (much of it generated on Hungary's semilegal black markets). As

things currently stand, this private liquidity tends to flow into housing construction and speculation and into art and antiques—investments that do nothing to bolster the country's sagging productive capacities. Americans will recognize the problem: Discourage long-term investment and you subsidize speculation.

Will the government open the bond market to the public? We asked Dr. Tamás Bácskai of the National Bank of Hungary, which oversees the new market.

"Personally, I would," replies Bácskai. "The problem is not ideological, it's practical." Creeping capitalism again.

The problem, Bácskai explains, is disintermediation. Hungary's big savings bank pays 3% on demand deposits and 5% on one-year time deposits, against 11.5% on the new bonds. "If we allow the public more competitive forms of investment," Bácskai worries, "how will it affect the liquidity of our savings bank with all its 25-year mortgages? We could subsidize interest rates. But we are trying to eliminate subsidies through the economy."

One more example of how attempts to resolve one socialist contradiction generally open the doors on new contradictions.—L.M.

is the only way Hungary can participate in the technological revolution, which has largely bypassed the rigidly controlled, artificially regulated socialist economies.

But as good Communists, the Hungarian leadership seems bound to honor such socialist shibboleths as income equality and job security. These, in turn, tend to destroy, over the long run, the Hungarian economy's competitiveness in Western markets.

"We have a low rate of structural change," agrees Dr. Tamás Bácskai, the charming managing director of the powerful National Bank of Hungary. "Innovation is slower here than in the West because our attitude toward maintaining full employment reduces the speed of innovation." Now, Bácskai is talking like a conservative capitalist economist arguing against "reindustrialization" for decaying industries. He goes on: "If you have a lot of transfer payments from high-profit to low-profit enterprises,

then those who want to innovate don't have the capital to do so. We have recognized this problem and have created our bond market to deal with it" (see box).

Strange words from a supposed Marxist. But Dr. Martón Tardos, of Budapest's Institute of Economics and one of the founding intellectuals behind the Hungarian reforms, sounds even more conservative. "The reserves for [state] intervention are exhausted," says Tardos. "It is not possible to keep the situation as it now is. We must change. The only question is: In what direction? The government says in the direction of more liberalization, but it is not taking decisive steps in that direction." Tardos is not using "liberal" in the American sense but in the older, European sense, meaning an unfettered economy. Tardos is blunt about the consequences if Hungary does not move, economically speaking, to the right: "If it doesn't," he says, "there is a real

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danger of an economic crash."

To its credit, and up to a point, the government is listening to reformers like Bácskai and Tardos. As Hungary's leading economist János Kornai makes clear, a fundamental problem with socialist economies is their bedrock devotion to full employment and state planning. Under this system, just as workers are secure in their jobs, so managers are secure in the fact that the paternalistic state will always bail them out of their mistakes: There is no fear of bankruptcy in socialist economies and so no objective way to weed out the inefficient from the efficient state enterprises.

To attack this contradiction, Hungary approved new reforms last March. From now on managers of moneylosing companies must present three-year plans to their relevant ministries showing how they plan to become profitable.

If a manager does not fulfill plans? "Then his work force must be regrouped elsewhere and his enterprise must be liquidated," replies Dr. Miklós Németh, a Harvard-educated economist and member of Hungary's Central Committee. This kind of thing usually happens automatically in the U.S.—witness the current partial liquidation of International Harvester—but is scarcely possible under socialism.

Németh thinks there are 22 enterprises, employing nearly 50,000 workers, that may be forced to close. But whether the Hungarian trade unions—whose leaders talk reform but are said by the reformers to retard seriously the reform process—will allow bankruptcies and sackings is anyone's guess.

Another reform approved this year aims at facilitating the dumping of inept managers. Under it, all top managerial positions will be open to applications, with the applications openly discussed. Successful applicants will be awarded contracts of no more than five years. If they fail to perform, no reappointment. That, at least, is the theory. In practice there are obstacles. One such is the problem of compensation. What reward compensates the manager for putting himself at risk?

In the West a major part of the answer to that question is money and the goods and perks that come with money. That's not so easily given in a socialist country. A top Hungarian manager earns 3, occasionally 4, times an average worker's salary of \$110 a month. But the manager must devote all his energy to his job; it's his only income. His workers put in eight hours at a fairly leisurely pace and then forage for another job in the par-



A rock concert in Budapest sponsored by the Communist Party
Do the young understand the need to soothe the Russian Bear?

allel economy, which can easily double their official wages.

Easily. A Hungarian journalist friend tells us of a woman friend. She's a divorcee with a young child. She earns \$110 a month as a lecturer at Karl Marx University, against her daily living costs that add up to \$250 a month. Luckily she has a washing machine—and a friend with a thriving business supplying dresses to Budapest's private boutiques. The dressmaker needs someone to dye fabrics. So the divorcee spends 2½ hours a day dyeing fabric in her washing machine, for which she earns \$500 a month.

Why should a seasoned Hungarian manager break his back exporting if his daughter can earn twice as much watching a washing machine go round? The solution seems simple to a Westerner: Double or quadruple managerial wages. Let entrepreneurs like Horizont Guide's Komlós keep a big chunk of what they earn rather than stifling them with marginal income tax rates that can hit 90% on monthly income over \$200.

The solution is simple but dangerous. "For three decades Hungarians have believed in flat income distribution," explains a top Western diplomat stationed in Budapest. "If you suddenly allow wider income differentiation, you break that basic social contract." So equality gets in the way of prosperity. Envy triumphs over common sense.

Such contradictions are everywhere. Increase prices, and consumers grumble. Increase wages, and inflation takes off. Force inefficient

companies into bankruptcy, and bosses and workers alike are at your throat. This is why the Culture Ministry's Mihály Bihari says he is "quite convinced that economic reforms without political reforms cannot be successfully achieved." That's a safely abstract way of saying that the official political doctrine of egalitarianism is holding down the standard of living. So you can't make the economic change without making the political change at the same time.

The real problem, though Bihari skirts it, is that democratic socialism is a contradiction in terms. You can have socialism. Or you can have democracy. But you can't have both, because socialism is essentially an elitist system. All societies must make decisions. The difference lies in who makes the decisions, based on what information. Democratic societies are efficient because decision-making is broadly based and relies on a free flow of information, whereas in socialist societies decisions are made by a few Party elite, based on how they think the masses think and what they think is good for the masses.

"In socialist societies," says Bihari, "it is the privileged few who decide what interests to take into account when they make their decisions. And they themselves are interested parties. So there is the danger that when they make their decisions they don't take into account the real interests but false interests. The result of this generally is bad decisions. And once a bad decision has been made, there is no immediate corrective mechanism."

When racing driver Dan Gurney drove a Toyota Supra around Willow Springs International Raceway, he was impressed.

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WOW!



Socialist realism in a sculptor's studio (above) and Hungary's shrewd political realist, Premier János Kádár (right), who has pleased Moscow by keeping reins tight on politics, looser on the economy

The only long-term hope for the socialist societies, Bihari concludes, "is to create basic conditions: free speech, free press, the freedom to establish political parties—a bill of rights, in other words, the same as in Britain or France or America. Until these rights are introduced, our basic problems will remain. . . . Democracy liberates the creativity and initiative of human beings and makes clear the opposition of interests and conflicts. If we [socialist states] want to handle these conflicts, it is absolutely necessary to talk about them openly."

Which would mean the end of socialism. Bihari doesn't say that, but the implication is clear to anyone who knows something both of the East and the West. It is a mark of the Kádár regime's relative freedom that Bihari can express such thoughts openly and (we hope) with impunity.

But there are limits. Ask Miklós Haraszti about free speech. Haraszti, 38, is one of Hungary's leading intellectuals and dissidents; his book, *A Worker in a Worker's State*, has been translated into 12 languages but has never been allowed publication in Hungary.

For the past year Haraszti and five fellow dissidents have been publishing a quarterly journal called *Beszélő* (the word means speaking freely in a place, like a prison, where freedom does not exist). In *Beszélő* the dissidents called for political reforms to protect Hungary's economic reforms.

But the police have been harassing



him, and Haraszti and his fellow editors now stand accused of printing without a license and are awaiting the state's decision to proceed to a trial. ("I doubt there will be a trial," says a Western diplomat. "The government would get too much bad publicity and have to answer too many questions from its Western bankers.")

Perhaps for this reason, Haraszti was willing to talk with *FORBES*. "Without political reforms," Haraszti said, "Hungary is always on the brink of falling back into Stalinism. I think it will necessarily fall back." Why? Because he thinks the government is neither willing nor able to make the necessary reforms, which would involve, to a considerable degree, the rebourgeoisification of Hungarian society.

When they read their (forbidden in Russia) Hayek, Hungarian intellectu-

als will not miss the poignancy of Hayek's statements that socialism, far from being the wave of the future, is essentially a reversion to autocratic feudalism. In Hungary's case the autocracy is relatively benevolent, thanks to the reigning autocrat, wily János Kádár. One who knows him says Kádár, now 71, "has excellent color and is very animated, even late at night." Still, 71 is getting on, especially for a man who smokes a pack of cigarettes an hour, as Kádár does. Will the next autocrat be as benevolent?

And how much more benevolent can Kádár get? His regime has begun to pay a limited amount of attention to political reform and now awaits proposals from Imre Pozsgay, the reform-minded president of Hungary's Patriotic Peoples Front. The best guessing among Western observers in Budapest is that Pozsgay will propose that all seats for Hungary's parliament be contested by at least two candidates, not necessarily Party members. Interesting but not especially significant: Western diplomats and Hungarians, privately, explain that the parliament is now basically a rubber-stamp organization that meets four times a year for one or two days each session. No one expects parliament's role to be significantly changed. It would be too dangerous.

"The limits in action are apparent," says a top-level Western diplomat. "There are limits that cannot be exceeded. Hungarians live in the overhang of Soviet power. They are trying to take steps on the political side that the Soviets will permit and still make Hungary a more attractive, livable place. What happens here and throughout Eastern Europe is that you push up against the limits until someone says stop. That's how change happens in Eastern Europe, and will continue to happen. There is avenue for change in Eastern Europe, but it's the Hungarian or Bulgarian avenue, not the Polish avenue. A lot of people in the U.S. don't understand that." Meaning: Don't push the Bear too hard; he has fangs.

But many Hungarians, the young in particular, don't understand it either. What they do understand is the inherent impossibility of creating a dynamic economy within the rigid confines of socialism. As entrepreneur Komlós put it so well, you can't be a virgin and have a baby at the same time.

But socialist virginity has the sanction of Soviet military power; Russian tanks are its ultimate chastity belt. Under these circumstances, the Hungarians can probably forget about further improvements in their living standards and in their freedoms. ■

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Economically speaking, Japan and the U.S. are in a tough race. And where are the Europeans? Where indeed?

Can Europe catch up?



By Lawrence Minard

Travel the U.S. and ask top businessmen about their problems, and you'll get this lament again and again: We're falling behind our foreign competition. Foreign competition? Do they mean German and British and French and Italian? Not at all. Press the point and it turns out that what the American executives worry about most is not foreigners in general but specifically the Japanese. This does not suggest they are contemptuous of the Europeans, only that they recognize the real contest is between ourselves and the Japanese. There's no getting away from it: The Europeans, whatever their skills and their past accomplishments, are falling behind in a world where the old technologies count for less and the new technologies count for more.

After four years covering Europe for us, Lawrence Minard has just returned to the U.S., where he will run our West Coast Bureau. On the eve of his return, we asked Minard to write an article on the subject: Can Europe keep up, economically, with Japan and the U.S.? Minard's response follows.

The answer, I fear, is no. The economic center of gravity has been shifting away from the Old World and toward the New World for over a century, and the shift shows every sign of persisting. Europe will emerge, eventually, from its current structural crisis. There will be pockets of prosperity, many opportunities for American business. Europe will remain rich in culture, a wonderful place to visit or to retire to. But it will fall further behind in the race with its major competitors. I hope I am wrong. A relatively stagnant Europe, unable to deliver to the expectations of its citizens, is good news only for Yuri Andropov and his crew.

Europe's problems lie in its recent successes. The Common Market countries are completing an era of unparalleled growth that followed—and was stimulated by—the unparalleled destruction and misery of world war. Urbanizing and rebuilding, France has grown at 6% annually since 1950; Germany, at over 6%; Italy, at 7%. Compare these annual growth rates with the U.S.' 3% since 1950. Even Britain, for long "the sick man of Europe," is prosperous beyond anyone's pre-World War II dreams.

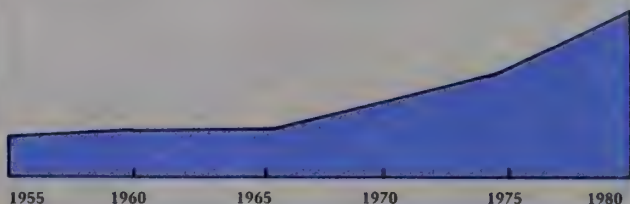
So Europe feels rich again, but not the way the Europe of old did. This one is like a prosperous businessman who has grown weary of business and

The road to complacency

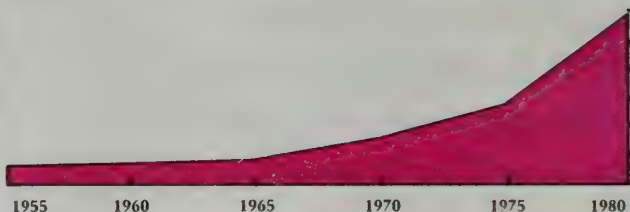
The economies of Europe, following the unparalleled misery and destruction of world war, are completing a period of unparalleled growth. The economies of the ten members of the Common Market have, by and large, grown at a faster rate than that of the U.S. The

GNP (per capita) \$ (thousands)

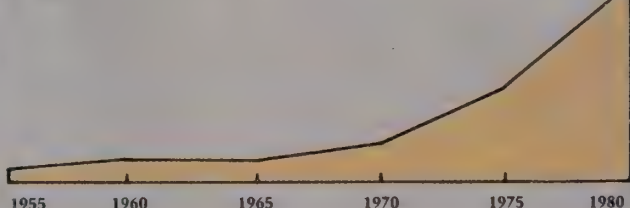
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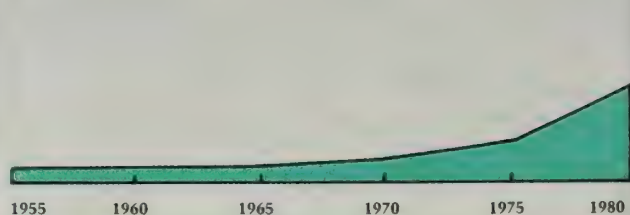
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Germany



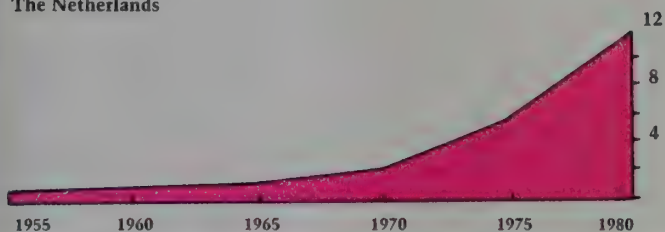
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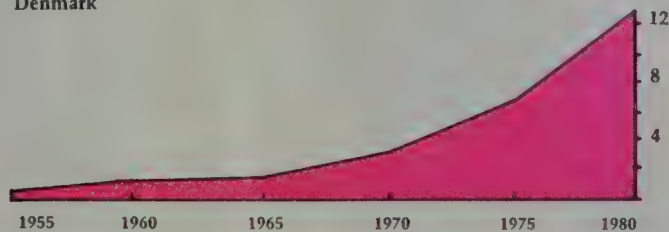
result is, by historical standards, unparalleled prosperity. The comparative well-being is, in turn, in danger of breeding complacency and an unwillingness to change. Failure to grow not only jeopardizes prospects for young Europeans just entering the job market but

also threatens the ability of the Common Market countries to keep their standards of living on a par with those in the U.S. and Japan. Mind-set is critical. Where the U.S. and Japan are clearly impatient with slow growth, Europe seems almost resigned to it.

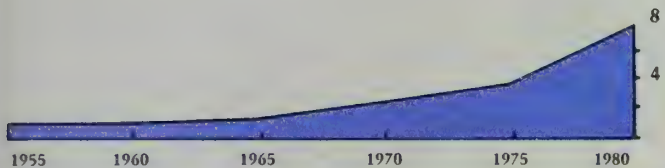
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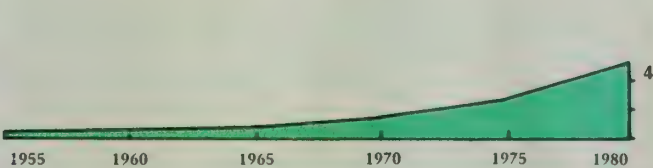
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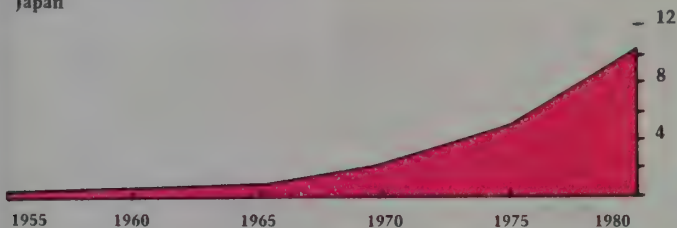
United Kingdom



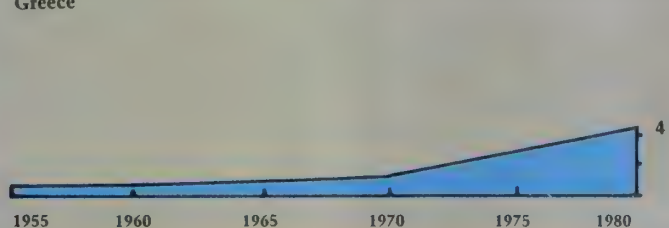
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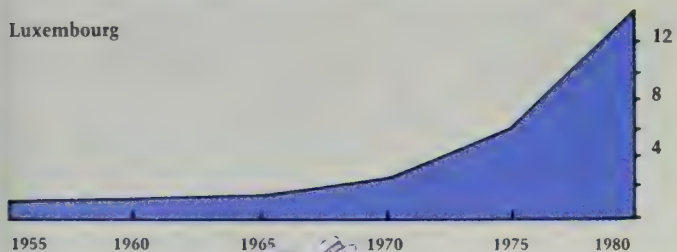
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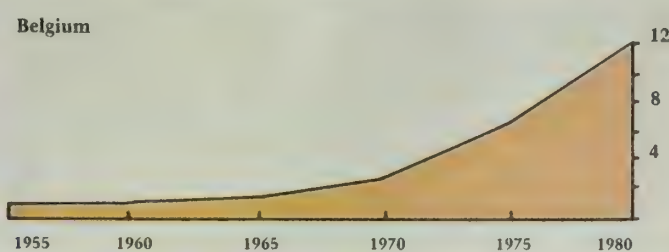
Greece



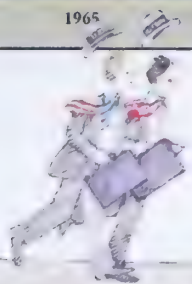
Luxembourg



Belgium



Source: World Bank

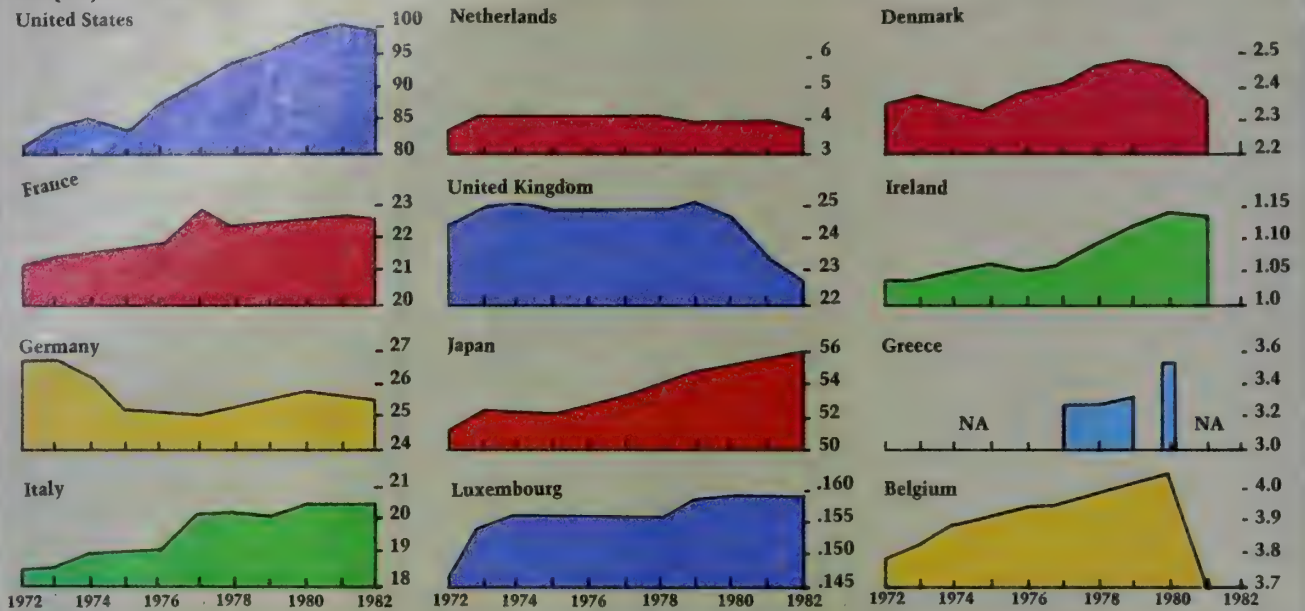


The flip side of unemployment

The problem of unemployment is nearly pandemic. Europe's numbers would be worse if new "guest workers" were still coming in. But making things

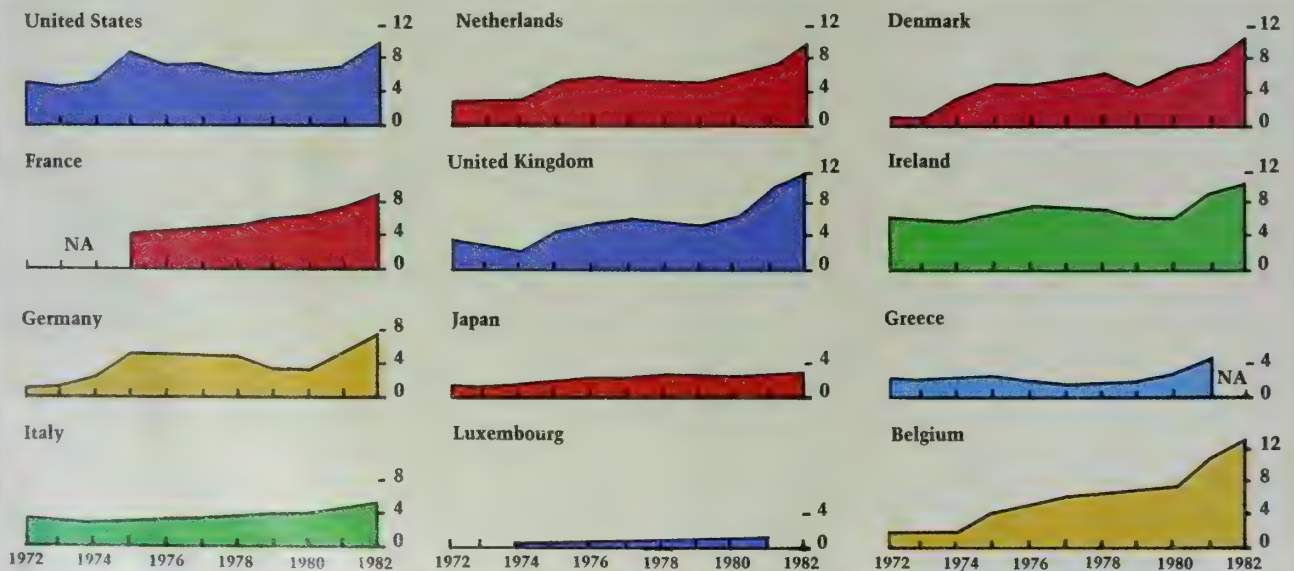
worse still is the recent inability of Common Market economies to create new jobs, despite their overall growth.

Employed Millions



Sources: US Dept. of Commerce, OECD

Unemployment rate as a % of civilian labor force



Sources: UN, US Dept. of Commerce, OECD



would like to retire to enjoy the finer things of life. The portfolio is solid, the family provided for, the house in the sun paid for. Who wants to spend the next 40 years at the breakneck pace of the last 40?

Americans, when they have enough, tend to want more. But Europeans, in general, are more easily satisfied.

Forty years ago Joseph Schumpeter wrote eloquently of the dangers facing societies whose material wants have been met, and he could well have been writing about Europe in the 1980s. "A more or less stationary state would ensue [he wrote in *Capitalism, Socialism and Democracy*]. There would be nothing left for entrepreneurs to do. They would find themselves in much the same situation as generals would in a society perfectly sure of permanent peace. . . . Socialism of a very somber type would almost automatically come into being. Human energy would turn away from business. Other than economic pursuits would attract the brains and provide the adventure."

As Nobel laureate Sir Arthur Lewis pointed out (*FORBES*, June 20), Schumpeter may have been too gloomy about capitalism's prospects. But he may not have been all that far off the mark as far as Europe—his native continent—was concerned.

You can almost feel the blood turning thin. Listen to leading European businessman Eckert van Hooven, member of the board of managing directors of Germany's behemoth-like Deutsche Bank. Said van Hooven at a European banking conference in March:

"The banking profession clearly has the expertise to sail into the new world of electronic banking, but not without paying a price. If the price means giving up the identity of the banking profession as we know it today, then to me the price is too high."

There it is in a nutshell: We Europeans have it good now, why risk radical change? Unfortunately, we all live in a dynamic world where stability can probably be achieved only by risking stagnation.

Short-term growth prospects do not look very good anywhere in the world. But where Japan and the U.S. are clearly impatient with the slow growth, Europe seems almost to accept it. This worries the economists in the Paris headquarters of the Organization for Economic Cooperation & Development. Through 1984 they forecast U.S. and Japanese growth at 3.5% to 4%, vs. 1.5% to 2% for Europe. "The longer slow-growth continues in Europe," the OECD economists write in the latest *OECD Economic Outlook*, "the greater the risk that it will become self-perpetuating. Growth expectations, like inflation expectations, can persist for some time. . . . But as expectations of a sluggish outlook for sales become more entrenched, it could prove extremely difficult to revitalize the corporate sector and encourage it to invest on the scale needed to make significant inroads into unemployment."

In several important industries the Europeans have already lost the race with the Americans and the Japanese. Using *FORBES'* 100 Largest Foreign Companies roster of leading non-U.S. companies (p. 124), I do some quick productivity calculations for the international automobile industry. Last year it took 239,100 Volkswagen workers to generate \$15.4 billion in sales—\$64,000 in sales per worker. VW profits came to just \$402 per worker. France's Renault and Peugeot generated sales of \$72,800 and \$54,700 per worker, respectively, and both lost money.

Yet Ford and General Motors, hardly models of productivity, both squeezed over \$90,000 in sales from each of their workers. Ford lost money, but GM earned almost \$1,500 per worker.

The Japanese, of course, are way out in front. Honda

earned \$6,260 per worker on sales of \$193,000 per worker. Nissan Motor Co. made \$7,425 per worker on sales of \$284,800 per worker.

One sees the same pattern for chemicals and electronics, not to mention steel manufacturers. In virtually every line the Japanese sell and earn far more per worker than the Americans (though IBM is an outstanding exception), but the Americans sell and earn far more than the Europeans.

There are obvious exceptions. Sweden's widely diversified Volvo, for example, which now accounts for 12% of Sweden's GDP and is run by forceful Pehr Gyllenhammar. Or the Scandinavian drug companies. Or Britain's GEC. But these are exceptions that tend to prove the rule.

Europe's defenders, of course, will argue that these productivity figures simply suggest what everyone knows, that Europe is churning through a deep structural crisis. After all, there are now nearly 12 million unemployed in Europe. Once they are reemployed, won't they buy more Volkswagens and Philips videotape recorders and generally bolster Europe's anemic profits?

But reemployed where? The charts on page 86 do not make pleasant reading. Rather than concentrate on unemployment, the charts look at employment as well. Yes, unemployment in the U.S., as in Europe, has been climbing. But in the U.S. employment has also been climbing, indicating that the U.S. economy creates new jobs as fast as it obliterates old jobs. But in Europe the employment curves often are essentially flat if not falling.

No one expects European unemployment to fall soon. As Britain's then-Chancellor Sir Geoffrey Howe recently told *FORBES*: "Unemployment is bound to remain high and bound to be slow coming down." If anything, unemployment will probably rise in France and Germany, both of which have been slower than Britain to grapple with the structural crisis. The European steel industry still employs 497,000 workers, only 36% fewer than in 1975—and that includes British Steel, which has cut its work force by more than half in three years. American steel employment, by contrast, has fallen by nearly 50%.

Why is Europe so slow to create new jobs? One important reason is that Europe has little in the way of venture capital markets. In Germany, for example, the giant banks control the flow of funds to business, with the big German combines getting top priority. Munich's Siemens typically accounts for 12% of the German market's turnover. France has nationalized its banks and many of its largest companies: No one should be surprised if state-owned companies have first call on state-owned banks' funds. In Italy, small business thrives, but only if it remains very small and invisible to the tax collector.

On this particular horizon, Britain is a bright spot. Its Unlisted Securities Market was composed of only 115 companies worth \$2 billion when I first wrote about it (*FORBES*, Oct. 25, 1982). Today it is nearly 200 companies worth over almost \$2.5 billion. Britain, the nation of shopkeepers, is becoming commercial again under Mrs. Thatcher, just returned to power in a historic landslide victory.

On the labor front, however, the cloud is still over Britain. *FORBES'* European Bureau is located in London's Financial Times Building, where I observe the daily workings of this great newspaper. For the past week the *Financial Times* has not been published. Why not? Because 24 press operators have called a wildcat strike, demanding (among other things) a 6% addition to the \$25,300 a year (about half their editor's salary) they already get for what amounts to a three-day week. The strike has, of



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course, been a great shot in the arm for Dow Jones' new *Wall Street Journal/Europe*.

Doesn't the *FT* have contracts with its workers? It does. But in Britain, collective agreements are not legally enforceable. Any British union can ignore its contract with impunity. This is absurd. Yet not even the Thatcher regime has dared try to reform it.

Why aren't Europe's unemployed rioting in the streets, or at least demonstrating in the parks? Because the European welfare states take good care of them. A sacked German worker gets 68% of his aftertax salary for 12 months, after which he gets 58% indefinitely. An unemployed British worker, married, with a child, gets around \$80 a week from the state (plus rent assistance, plus hefty redundancy payments from his company) for as long as he is jobless.

These stabilizers keep the peace, but at huge costs. In 1981, before its unemployment really hit the fan, Germany paid out DM20 billion (around \$9 billion) in unemployment cash and noncash benefits. Britain currently pays out around \$8 billion.

Financing the European welfare state is a burden that can only grow with stagnation. As if the burden isn't already heavy enough. In the U.S. and Japan, for example, a hefty but manageable 12.7% and 12.3%, respectively, of workers' incomes are siphoned off into social security coffers. In Italy the figure is 16%, in Germany it is 21% and in France it is 34%. Only Britain, at 10%, is healthy in this regard.

The Europeans complain about the U.S.' soaring budget deficits, which they argue will keep their inflation rates and interest rates high and their currencies weak and unstable. But look at the chart on page 92. It shows various countries' government deficits in relation to gross savings. The U.S. deficit-to-savings ratio (24%) is indeed high—but this is thanks largely to our defense budget.

Even without heavy defense spending, the European nations are running very heavy deficits of their own. Since 1978 France's deficit-to-savings ratio has nearly doubled, to 16%. Germany's rate, too, has almost doubled, to over 21%. Italy (which will probably be the next major headache for the bankers) now runs a deficit equal to nearly half its national savings. Only Britain and Japan have cut these ratios: down by half, to 9.5%, for Japan; down by a third, to 13.5%, for Britain.

If European companies continue shedding labor, as they must, then the welfare burdens can only increase. This means choking off even further the European companies' ability to finance the new research and investment they will need to compete with the U.S. and Japan.

The Europeans are good inventors but mediocre developers and marketers. They permit the Americans and Japanese to turn the profits on European inventiveness—as happened with the videotape recorder (first marketed, in 1972, by Holland's Philips), or with CAT scanners, invented by Britons and now made in Japan and the U.S. French and British scientists invented the powerful Prologue language that the Japanese are now using in their push to win the market for fifth-generation computers.

In 1979, the most recent year for which international comparisons are available, the Europeans were roughly on a par in terms of research and development spending with the U.S. and Japan. All spend between 1.9% and 2.5% of GNPs on R&D. But in critical new product areas the

Europeans seem to be falling ever further behind.

Microchips, for example. Daniel Klesken, a technology analyst and partner at San Francisco's Montgomery Securities, tracks and projects market shares in memory chips. For the 16K RAM (the chip that holds 16,000 bits of information), whose peak sales years were 1978-82, Klesken says Japan had 40% of the market, Europe 3%. But for the current chip generation, the 64K RAM, whose peak market will be 1981-86, the analyst expects Europe to get just 1% of the market while Japan grabs 70%. The market for the late 1980s will belong to the 256K RAM. Klesken thinks Japan will walk away with most of that business, with the Europeans getting none of it.

Not that the U.S. can sit back. Its market share in chips has also fallen, to around 30% for the 64K RAM, from 57% of the 16K RAM market. But many experts counter that what the U.S. lacks in manufacturing capability it makes up for in ability to use and adapt the chips in innovative ways that are still beyond the group-think Japanese. Thus, for example, British Telecom is set to pay £100 million for IBM's computerized telephone billing system. The Japanese weren't even in the running on this one.

The Europeans know they have a problem. A recent report projects Britain alone could suffer a £1 billion deficit in information technology trade by 1990, vs. a £150 million deficit today. They are fighting back, after a fashion. Strategy: Throw big government and big business money at the problem.

Last December the Common Market's bureaucrats and a dozen big

companies cobbled together the European Strategic Program for Research & Development in Information Technologies (ESPRIT). In May the European Commissioners increased ESPRIT's funding to \$1.3 billion, to be split about evenly between European governments and big companies over the next five years.

As an American, however, I feel that the Europeans need government funding much less than they need a good shot in the arm for the entrepreneurial spirit. As it is they are just throwing money at problems—much as the U.S. tried doing with its social problems in the Sixties and Seventies.

"The Alvey report," says Frank Land, professor of systems analysis at the London School of Economics, referring to a British report urging the government to fund a £350 million effort to catch up with the U.S. and Japanese in advanced information technologies (the government has agreed), "has defined what is probably the best possible program for an Information Technology Concorde." He adds: "There is little evidence that a pure technology-push approach can work in a situation where markets are uncertain and undefined."

What is important, says Land, is not the manufacturing source of new technologies, but the knowledge of how to use and adapt the technologies. The implication, of course, is that no government program can force its citizens to think innovatively.

To put it another way, the factors leading to a relative decline or ascent of nations do not fit neatly into an economist's model. It is a problem that historians and sociologists are in many ways better equipped to work on than economists.

The great French historian Fernand Braudel casts strong light on the relative decline of Europe when he says, in effect, that "Europe" is unfortunately a fiction.

Braudel: "A great power is only possible if Europe



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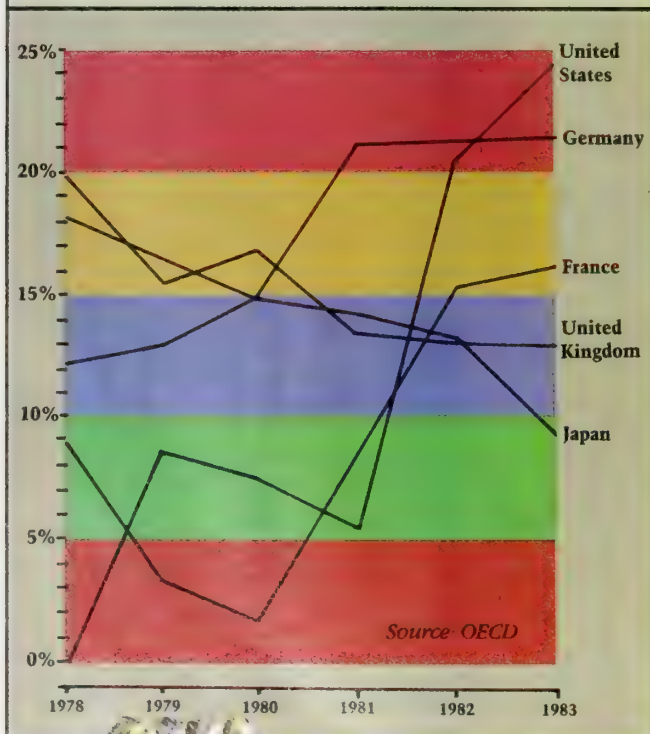
constitutes itself like the U.S. But we are a long way from that. Europe didn't happen at the time of de Gaulle. There was no enthusiasm for Europe. Too bad for France. Too bad for Europe." Virtually every day Europe-

an papers carry fresh stories of lamb wars, steel wars, cognac wars. Britain subsidizes French farmers and Renault. French farmers attack Spanish, Italian and British trucks.

If anything, the centrifugal forces now straining the Common Market will likely grow in the years ahead, as individual states' national policies diverge, depending on the speeds at which their economies move through the technological restructuring process. So much for "Europe" in the sense of a unified economy. The fragile appearance of unity was probably only narrowly preserved last spring when the Germans (who have the most to lose) agreed to a sharp 5.5% revaluation of the mark against the French franc. That minimized the devaluation of the French franc (the third since Mitterrand took power) and saved some face for Mitterrand.

Hollow complaint

Europe complains bitterly about U.S. deficits. But without a comparable defense burden, France and Germany have sharply higher deficit-to-savings ratios, too. Only Japan and Britain have cut this ratio.



Temporarily. France's deficits and inflation continue to grow. The franc continues to slide. There will probably have to be another realignment of currencies within the European Monetary System, perhaps as early as this fall. The Germans may not be so kind next time.

Mitterrand has hardly any options; he is boxed in. He can forget about his plans to remake French society. If not, he will have to impose new controls, erect new protectionist walls—as he did in March when he made it virtually impossible for Frenchmen to spend their holidays outside France.

I recently suggested to a young Danish businessman that Americans, suffocating under a \$240.5 billion defense budget, might one day turn isolationist.

"Good," said the Dane. "I hope that happens."

This is the same attitude held by the 250,000 Brits who demonstrated last Easter against deploying the cruise missile. It is also held by Germany's new Green Party, which now controls 5.4% of the German Bundestag, a small percentage, but with grave importance at the margin. Putting wish before wisdom, many Europeans have convinced themselves that if only the Americans would not be so belligerent, the Soviets would turn into pussycats.

Essential reading for anyone hoping to understand Britain is Rice University historian Martin Wiener's recent *English Culture and the Decline of the Industrial Spirit, 1850-1980*. Wiener shows that commercial society's values have historically rubbed all British classes the wrong way. Wiener quotes an English writer in 1926: Englishmen dislike America, he wrote, because of "the American's worship of size, speed, mechanism and money." To this day many Britons of all stripes treat their bona fide entrepreneurs—men like Jimmy Goldsmith and Tiny Rowland—as pariahs.

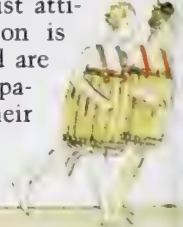
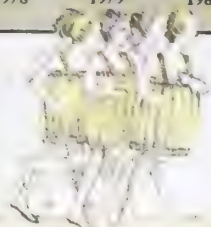
In a sense, Europe is too civilized for its own good. As Allan Woltz, the American who runs Britain's LRC International, told a *FORBES* reporter, "The difficult thing about changing business attitudes in England is the same thing that makes them such fine people. They're so civilized and polite. They care so much about offending someone that it works against decisions you have to make to run a successful business. They just don't want to be unpleasant."

"It's hard to get them to move on something, especially when it offends their paternalistic, civilized and polite relationships."

The British revulsion against vulgar commercialism is held, to varying degrees, throughout Europe today. It is a curious mixture of envy and moral self-righteousness, spawned of a preference for order over progress. As the Deutsche Bank's van Hooven said, if the price of change means giving up the identity of the banking profession as he knows it today, "then for me the price is too high."

Unlike the U.S., Europe is complacent. Contrast the difference in the way the two societies have reacted to Japanese industrial competition. The Europeans are resentful and sullen—a thinly disguised racist attitude. The predominant American reaction is quite different. Americans are worried and are spending their time figuring out how the Japanese do it and how best to beat them at their own game.

There is an unmistakable aura of twilight about Europe.



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2700/3700

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\$ 25,000

\$ 30,475

Do gloomy times for Japan's innovative trading companies indicate a long-looked-for slowing of its commercial success? Don't be absurd.

Outward bound

By Kathleen K. Wiegner

JAPAN'S MULTITALENTED trading companies, leading edge of Japanese trade expansion since Commodore Perry sailed into Tokyo Bay in 1853, are encountering rough seas. Profits are way off for such fa-

miliar names as Mitsubishi Corp. and C. Itoh & Co. And venerable Mitsui & Co. last year reported its first loss in 35 years.

Cause of the trouble? Basically, the results of an unwelcoming world challenging further growth of Japan's exports. And it's more than a sudden

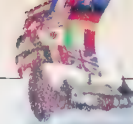
squall. President Yohei Mimura of Mitsubishi—the largest of the nine major trading companies or *sogo shoba* (see table)—told the Foreign Correspondents Club in Tokyo last year that “changes in Japan, and in the world economy as a whole, have had a profound impact on the functions and operations of the integrated trading company, especially over the past several years.”

These are important companies. Taken together, the nine traders' volume last year came to around \$368 billion, some 30% of Japan's gross national product. Their troubles are a cause for concern in Tokyo. But lest Japan's trade competitors console themselves, as they so frequently do, with fuzzy notions that the island nation's economic prowess is peaking, they should remember that for every challenge there is a response. And the trading companies have lost none of the adaptability that has seen them through other crises over the past hundred years.

To be sure, the gloom of the moment is real. Takashi Sakai, Los Ange-



A \$130 million power plant under construction in Queensland, Australia. The general contractor? The traders at C. Itoh. When adversity comes, become a true multinational.



les-based senior vice president of C. Itoh & Co. (America), plucks a book from a stack of Japanese bestsellers on his desk: "This one is called *The Era of Winter*," he says, "and is about the trading companies. It is very pessimistic. No spring expected."

Recent shifts in Japan's business have all been adverse to the companies. Whereas years ago the traders were responsible for Japan's direct foreign investments—securing supplies for home industry through such large-scale developments as coal mines, pulp mills and petrochemical plants—recent foreign investment has been by Japanese manufacturers worried about protectionism. "If manufacturers make a direct investment, they won't need the trading companies," says Sakai.

The traders' old standbys—steel, aluminum and petrochemicals—are being phased out of Japan's export plans. And, increasingly, even those manufacturers who export are going directly to the market with their own sales organizations. Few exports of autos, television sets, stereos, watches or cameras are handled any longer by the trading companies. In the high-growth, high-technology industries, the general traders have been bypassed, as they often lacked the understanding required to sell and provide service for goods like computers or telecommunications equipment.

Meanwhile, the trading companies' expenses—as with all service companies their main asset is skilled manpower—continue to increase. It's the other side of lifetime employment—a blessing when a company can retain a man it takes ten years to train, but a source of hard-to-dismiss overhead when business volumes drop.

So how are the trading companies seeking to overcome adversity? They are becoming Japan's first true multinationals. In 1980 U.S.-based subsidiaries of the *sogo shosha* handled exports from the U.S. valued at over \$22 billion, an estimated 10% of world-wide U.S. exports. Around 25% of those exports went to countries other than Japan. Mitsui, for example, exports U.S. grain to Europe. The U.S. subsidiary of Nissho Iwai arranges for the manufacture of Nike athletic shoes in Korea and Taiwan and also handles letters of credit and customs clearance for the Beaverton, Ore. manufacturer. C. Itoh is the general contractor for a \$130 million power plant rising in Queensland, Australia. Itoh, too, with 24 subsidiaries and affiliates in the U.S., imports and distributes Mazda and Isuzu automobiles, exports Beechcraft airplanes

Japan's big nine

For the general traders, whose money is made moving huge volumes with razor-thin margins, lack of growth can be painful in the extreme. Profitability can vary widely because thin margins, coupled with high fixed costs (85% to 90% of annual expenses), make them extremely vulnerable to even slight declines in volume or any miscalculation on expensive large-scale projects.

Company	Sales (as of March 1982)	Profits
Mitsubishi Corp	\$67 billion	\$96 million
Mitsui & Co Ltd	60 billion	69 million (loss)
C Itoh & Co Ltd	56 billion	23 million
Marubeni Corp	52 billion	24 million
Sumitomo Corp	50 billion	71 million
Nissho Iwai Co Ltd	34 billion	26 million
Toyo Menka Kaisha Ltd	17 billion	8 million
Kanematsu-Gosho Ltd	15 billion	527,000
Nichimen Co Ltd	13 billion	7 million

Conversion: 220 yen to the dollar

Source: Japan Company Handbook 1983

and manufactures chain link fence in California and pipe in Michigan. In 1982 C. Itoh did \$7.6 billion in the U.S. and contributed \$701 million to the U.S. balance of payments.

The traders are stressing third-country deals that do not involve Japan—U.S. power plant equipment exported to the Philippines, for example, or Canadian pulp to Europe. The traders are also expanding their direct overseas investment, in part to assure more of these third-country deals: When a trader invests in a hydroelectric project in Indonesia, Pertamina, the government-owned oil company, looks favorably on that trader when he comes looking for oil. In addition, such direct investments may produce dividends if the venture is profitable, helping to offset break-even general trading activity.

The companies are also becoming more substantive, often majority equity partners in manufacturing, natural resource development and service projects abroad. Mitsubishi is a partner with Royal Dutch/Shell and the Brunei government in an LNG plant in Brunei. Mitsui owns 45% of Aluma. Joint ventures are also formed for specific products, as in the case of Mitsui and Allied Group, which have such a venture to sell electricity-conducting alloy in Asia.

But high technology is where future growth is, so the traders have been trying to change from being knowledgeable only about commodities to understanding computers as well. Nissho Iwai Corp. has a tie-up with the U.K.'s Monotech Laboratories to introduce the company's biotechnology research to Japanese concerns. Kanematsu-Gosho has taken a different tack. Last year it formed a joint venture with ComputerLand to help

the U.S.-based computer retailer set up stores in Japan. Kanematsu-Gosho puts up 50% of the financing and gets 50% of the profits. This year, with IBM Japan, it formed Nippon Office Systems, to handle office equipment, including the IBM personal computer. Kanematsu-Gosho has a 65% stake in this venture.

In the U.S., Sumitomo Corp. and C. Itoh have set up subsidiaries to market and sell computers and computer-related gear under their own company names. Sumicom, based in Tustin, Calif., recently introduced a 16-bit personal computer built for the company by Matsushita in Japan. "Our value added," says Walter Schramm, general manager of Sumicom, "is to add the applications software and provide sales, service and marketing." Schramm says he will be looking at more products to add to the Sumicom line—and not only Japanese products.

C. Itoh Electronics, based in Los Angeles, began by handling small printers, disk drives, computer monitors and keyboards. Apple, for example, used a C. Itoh printer when it showed its new Lisa computer last winter. "The goal was to do things differently than the typical *sogo shosha*," says Vice President Robert Cowan. "So we launched an effort to develop our own products to match the requirements of this market." C. Itoh's printers may be made in Japan, but everything else is done here in the U.S. "We aim to be a manufacturing and marketing company," says C. Itoh (America) President Shigeru Goto, "but without manufacturing facilities. Originally, we concentrated on marketing the good products of other manufacturers. Now why not use their manufacturing facilities for products we design?"



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When continental Europe's leading institutional investors purchasing U.S. shares were asked about reading preferences, their number one choice was the International Herald Tribune.

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Innovative investing is a grand tradition with the traders, who first built Japan's textile industry and then formed themselves into powerful industrial-banking groups called *zai-batsu* in the half-century after Perry's arrival. Another U.S. military man, General Douglas MacArthur, dismantled these powerful combines after World War II, but even the most powerful—Mitsui and Mitsubishi—were allowed to re-form during the 1950s. Meanwhile, the smaller *sogo shosha* played a key role in capital-short postwar Japan, providing advance payments or trade credits to manufacturers who could not find credit on their own. With the rise of heavy industries like steel, autos and shipbuilding, the *sogo shosha* innovated once more, organizing joint investment and resource development ventures with countries that supply raw materials in exchange for long-term contracts for coal, iron ore or metals. With economic recovery and the growth of mass consumer markets in Japan, the traders began handling consumer goods.

Sure, they sometimes lose. Mitsui's multibillion-dollar Iranian petrochemical project was first stalled by the Iranian revolution and then by the Iran-Iraq war. Mitsui's loss last year was a consequence of having to set

aside a loss reserve of \$160 million for its Iranian project. If the project remains uncompleted, Mitsui may be stuck with uninsured losses estimated to be as much as \$500 million.

But the skills of such companies are well matched for the increasing role of services and the growing requirement of flexibility in the world economy. A typical *sogo shosha's* operation resembles a large global ex-

C. Itoh, with 24 subsidiaries and affiliates in the U.S., imports and distributes Mazda & Isuzu automobiles, exports Beechcraft airplanes and manufactures chain link fence in California and pipe in Michigan. In 1982 C. Itoh did \$7.6 billion in the U.S.

change, with tens of thousands of brokers working around the clock. Via this network, traders match supply and demand, arrange for the transactions and often the financing and foreign exchange as well. Thus excess copper ore in Peru can be matched with a smelter in Japan whose finished ingots have already been matched with a wire factory in

India. This large internal market allows for bartering of goods and services among a company's various divisions, a power no single company making a single line of products could hope to wield. The closest thing the U.S. has to *sogo shosha* are the international grain traders like Continental Grain or Cargill, although Congress last year set up the Export Trading Act. Like the grain traders, the Japanese trading companies are repositories of intelligence reports ranging from political evaluations to market studies and weather reports that could affect commodity pricing. "We have C. Itoh America, not CIA," jokes Sakai. These services are now for sale to countries other than Japan.

Troubles today? Simply another challenge. "From my experience," says C. Itoh's Shigeru Goto philosophically, "it has never been an easy task for the *sogo shosha*. The role of the trading company has been questioned for more than 25 years. But we are still here, we have to survive." And the same goes for the nation the *sogo shosha* represent. The truth Japan's trade partners should keep in mind is that they are competing most of all with tough, shrewd businessmen. That's the challenge; what will be their response? ■

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For an Executive Summary and more information, contact Terry Britton, President, San Antonio Economic Development Foundation, P.O. Box 1628, San Antonio, Texas 78296, (512) 226-1394.



The year the tide went out

Last year wasn't a good one for foreign investment. For the first time in the post-World War II period, the flow of direct investments overseas from the U.S. declined—falling by \$3 billion to around \$225 billion. The rush of foreigners to invest here slowed, too. That figure, which swelled by 30% in 1981, was up a modest 11% in 1982, to \$100 billion.

These numbers, which come from the Department of Commerce, aren't perfect, because of the vagaries of intercompany accounting procedures. But they do reflect the impact of the recession and turmoil in the oil market on worldwide capital flows. In 1981, for example, oil fueled much of the growth in foreign investments in the U.S. One deal alone—the Kuwaiti purchase of Santa Fe International—pumped in \$2.5 billion.

Last year, however, there were three important changes. Most significant, perhaps, was the strong dollar, which tended to make foreign purchases more expensive. In addition, falling oil prices dried up acquisition interest by foreign petroleum companies. Finally, the sorry state of the economy reduced a potent source of capital investment for foreign corporations—reinvested earnings of their U.S. affiliates. From a high of \$6.2 billion in 1980, this figure shriveled to near zero in 1982.

The foreign operations of U.S. multinationals were squeezed, too. Reinvested earnings peaked at \$19 billion in 1979, but last year the figure was less than one-third that amount. Add a continuing spate of divestitures and

1982 was less than a banner year for foreign investment by U.S. firms, even though a strong dollar made purchases relatively cheaper than in the recent past.

Is this a harbinger of things to come? "Instead of a lot of new U.S. companies surging overseas like you saw in the late 1960s and early 1970s, most everybody is over there," says economist David Belli of the Department of Commerce's Bureau of Economic Analysis. "You won't see tremendous growth from now on out."

On the other hand, the political environment is encouraging foreigners to invest in the U.S.—but not for the reasons you might think.

Many outsiders worry about the growth of protectionism and want to beat out any looming entry restrictions. "It's a similar situation to 15 or 20 years ago when U.S. companies established facilities within the Common Market in order to get inside the external tariffs," explains John Hein, an economist at the Conference Board. Also, of course, foreign corporations like the Reagan Administration's pro-business attitude, a marked contrast to that of some European governments.

The continued strength of the U.S. dollar, however, poses problems for all calculations about future capital flows. On a trade-weighted average, the dollar appreciated a remarkable 10.2% last year against the currencies of 15 of the nation's major trading partners. Now, even though many currency traders feel a decline is imminent, they don't expect that alone to trigger major growth in foreign in-

vestment. "It will help after the dollar has fallen but not while it is moving down, because people do not like to commit their resources to a declining currency," says Peter Andreae, a director of Kleinwort Benson Investments, Ltd. in London.

In Andreae's opinion, there will be a "gradual decline in the relative attractiveness of the U.S. as a field for investment" over the next six to nine months. A drop in the dollar could set this off, but it's the political situation that worries him: "The view from London is strong disappointment that U.S. deficits have not been tackled."

Many foreigners see this in sharp contrast to the approach of the conservative leadership in West Germany and the landslide-re-elected Margaret Thatcher. Both Britain's Tories and W. Germany's Christian Democrats make no bones about cutting deficits. "In the next two or three years there will be a divergence between conservative countries like the U.K., Germany and Japan, with good prospects of beating inflation, and the U.S., which is not conservative in its financing," Andreae concludes.

If that is true, don't be surprised to see solid inflows of capital into the U.S. this year and perhaps moderate outflows, as U.S. multinationals keep much of their own investment at home. Over the longer term, however, Britain may no longer be the "sick man" of Europe, and there's even the possibility that investors may soon look for opportunities along the Thames, in Duesseldorf, Tokyo, or even Singapore, just as they search the Sunbelt today.—Jon Schriber



Here come the Canadians

Last year revenues of the 100 largest foreign investments in the U.S. grew a scant 7%. But Seagram Co. Ltd. of Canada moved into first place over both Anglo American Corp. of South Africa and the Royal Dutch/Shell Group. Seagram's 21% stake in Du Pont put it on top, in part, because of Du Pont's Conoco acquisition.

At the bottom of the list, meanwhile, another Canadian firm, Steinberg Inc., squeaked into last place. It owns an American supermarket chain with \$497 million in revenues. Steinberg replaces Germany's Hoesch A.G., which divested itself of Envirotech, the pollution controls company, and moved off our roster. Also dearly

departed are such familiar names as Massey-Ferguson Ltd., which ranked 78th last year; Imetal, a French metals company that owns 66% of Copperweld; and Cominco Ltd., the Canadian mining firm. All fell victim to declining revenues.

Newcomers include the U.K.'s Pilkington Brothers, which ranks 47th by having grabbed a one-third interest in Libbey-Owens-Ford last year. "Winterthur" Swiss Insurance Co. also took over Republic Financial Services to become a runner-up.

There were other notable changes. Renault pulled up to the number 10 slot from 13 last year by capturing 20% of Mack Truck, a stake it now

plans to increase to 45%. At the same time, Imperial Chemical Industries fell to 60 from 22 after selling its share of Fiber Industries to Celanese. Finally, Rhône-Poulenc drops to 116 from 35 after shedding Morton Thiokol.

What kinds of investments do foreigners like? Chemicals, energy and metals are well represented. As for the international flavor, the U.K. has the most companies, 33 with major investments, followed by Canada with 24. Kuwait even rates one full entry (Santa Fe International) and a piece of another (30% of Korf Industries). Not surprisingly, however, Canada has by far the largest investment position here. Its total revenues: \$57 billion.

The 100 largest foreign investments in the U.S.

Foreign investor	Country	US company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
1 Seagram Co Ltd¹	Canada	Joseph E Seagram & Sons EI du Pont de Nemours ¹	100% 21	spirits & wines chemicals, energy	\$ 1,564 33,223 34,787	\$237.0 894.0	\$ 4,482 24,343
2 Anglo American Corp of So Africa Ltd¹	South Africa						
<i>Minerals & Resources¹</i>	Bermuda	Phibro-Salomon ¹ Engelhard Corp ¹ Adobe Oil & Gas ^{1 2} Inspiration Consol Copper ² Terra Chemicals ²	26 27 28 50 100	metal trading, brokerage metals energy copper fertilizer	26,703 2,019 203 165 273	337.0 64.8 24.6 -24.2 -2.5	39,669 775 387 223 213
<i>Charter Consolidated¹</i>	UK	National Mine Service ¹	51	mining equipment	177 29,540	4.5	120
3 Royal Dutch/Shell Group¹	Netherlands UK	Shell Oil ¹ Scallop Corp Billiton Exploration Billiton Metals Ocean Minerals	69 100 100 100 30	energy energy metals metals metals	20,062 1,560 21,622	1,605.0 NA	21,376 544
4 British Petroleum Plc¹	UK	Standard Oil Ohio ¹ BP North America	53 100	energy energy	13,152 NA 13,152	1,879.0 NA	16,016 2,000E
5 Mitsui & Co Ltd¹	Japan	Alumax Mitsui & Co USA	45 100	aluminum multicompany	1,004 5,802E 6,806E	38.7 NA	1,159 271

¹Publicly traded in U.S. ²Shares held by Inspiration Resources. ³North American operations. E: Estimate. A: Annualized. NA: Not available. Note: Some foreign investors listed own U.S. companies indirectly through companies in italics

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Foreign investor	Country	US company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
6 Flick Group	Germany	WR Grace ¹	28%	multicompany	\$6,128	\$319.5	\$4,916
7 B.A.T Industries Plc¹	UK	BATUS	100	paper, retailing, tobacco	5,165	214.0	3,745
8 Générale Occidentale	France	Grand Union Diamond International	100 100	supermarkets packaging, lumber	4,137 781 4,918	24.7 23.9	756 1,173
9 Tengelmann Group	Germany	Great A&P Tea ¹	51	supermarkets	4,608	21.4	1,093
10 Régie Nationale des Usines Renault	France	American Motors ¹ Mack Truck	46 20	automotive automotive	2,878 1,292 4,170	-153.5 -32.3	1,607 722
11 Beneficiaries of US Philips Trust	Netherlands	North American Philips ¹ Signetics	61 100	electronics semiconductors	3,168 325 3,493	73.6 NA	1,826 NA
12 Bayer AG¹	Germany	Mobay Chemical Miles Laboratories Compugraphic ¹ Helena Chemical Haarmann & Reimer Agfa-Gevaert	100 100 79 100 100 100	chemicals health care photocomposition chemicals chemicals photographics	1,132 1,076 276 816 3,300	-8.3 -0.8 7.7 NA	1,213 1,021 232 NA
13 Unilever NV¹	Netherlands	Lever Brothers Thomas J Lipton National Starch & Chem	100 100 100	consumer goods food adhesives, starch	3,132 ¹	80.5 ³	447 ³
14 Volkswagenwerk AG¹	Germany	Volkswagen of America Triumph-Adler (N. Amer)	100 100	automotive office equipment	2,454 600E 3,054	-143.1 NA	1,000E NA
15 Midland Bank Plc	UK	Crocker National Corp ¹	57	banking	2,894	71.6	24,939
16 Hongkong & Shanghai Banking Corp¹	Hong Kong	Marine Midland Banks ¹	51	banking	2,412	87.0	20,239
17 Schlumberger NV¹	Neth Antilles	Schlumberger Technology	100	oilfield svcs, electronics	2,400	NA	2,400
18 Nestlé	Switzerland	Nestlé Libby, McNeill & Libby Stouffer Corp Alcon Laboratories Beech-Nut Other companies	100 100 100 100 100 100	food food food, restaurants drugs food food, drinks, health care	2,341	NA	NA
19 Brascan Ltd¹	Canada	Scott Paper ¹	24	paper products	2,293	74.5	2,382
20 Petrofina SA	Belgium	American Petrofina ¹ Petrofina Delaware	75 100	energy oil & gas exploration	2,242 49 2,291	54.4 25.3	1,166 289
21 Canadian Pacific Ltd¹ <i>Canadian Pacific Enterprises Ltd</i>	Canada Canada	Soo Line Railroad ¹ Canadian Pacific Enterprises US	56 100	railroad agric products, minerals, china	299 1,926 2,225	15.3 19.8	526 1,752
22 Française des Pétroles <i>Total Petroleum NA¹</i>	France Canada	Total Petroleum	100	energy	2,200E	NA	890E

¹Publicly traded in U.S. ²Shares held by Inspiration Resources. ³North American operations. E: Estimate. A: Annualized. NA: Not available. Note: Some foreign investors listed own U.S. companies indirectly through companies in italics.

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13 George Weston Ltd ¹	Canada	Interbake Inc	100%	biscuits			
		Stroehmann Brothers	100	bakery	\$ 375	NA	NA
		Eastern Fine Paper	100	paper products			
Loblaws Cos ¹	Canada	Peter J Schmitt	100	food wholesaling	1,722	NA	NA
		National Tea	100	supermarkets			
					2,097		
14 CIBA-GEIGY Ltd	Switzerland	CIBA-GEIGY Corp	100	chemicals, drugs	1,965	NA	\$1,493
		ILFORD Corp	100	photographic products	44	NA	21
					2,009		
15 Grand Metropolitan ¹	UK	GrandMet USA	100	tobacco, drinks & food	1,347	\$77.9	1,053
		Intercontinental Hotels	100	hotels	449	NA	589
					1,796		
16 Barclays Bank Plc	UK	BarclaysAmerican	100	financial services			
		Barclays Bank NY	100	banking	1,773	-56.0	11,833
		Barclays Bank Calif	100	banking			
17 Imperial Group Plc ¹	UK	Howard Johnson	100	hotels, restaurants	725	NA	NA
		Country Poultry	50	food	1,000A	NA	NA
		Lea & Perrins	86	saucers	30E	NA	NA
					1,755E		
18 Commercial Union Assurance Plc	UK	Commercial Union Corp	100	insurance	1,655	-144.0	2,662
19 BASF AG ¹	Germany	BASF Wyandotte	100	chemicals	895	5.4	735
		Badische	100	man-made fibers	501	-0.2	483
		BASF Systems	100	magnetic media	85	NA	75
		Fritzsch Dodge & Olcott	100	flavors & fragrances	76	NA	132
		Knoll Pharmaceutical	100	drugs	61	NA	24
					1,618		
20 Dalgety Plc	UK	Dalgety Foods	100	frozen foods			
		Martin-Brower Co	100	distribution			
		Pig Improvement Co	100	pig breeding	1,600E	NA	230E
		Modern Maid Food	100	food coatings			
21 Kuwait Petroleum	Kuwait	Santa Fe International	100	oil drilling	1,600E	170.0E	1,500E
22 Consolidated Gold Fields Plc ¹	UK	Amcon Group	100	drilling rigs, mining	846	-12.7	1,011
		Newmont Mining ¹	25	mining	712	48.6	1,947
					1,558		
23 Thomas Tilling Plc	UK	Thomas Tilling	100	multicompany	1,520	NA	758
24 Hoechst AG ¹	Germany	American Hoechst	100	chemicals	1,506	3.0	1,242
25 Delhaize Le Lion SA	Belgium	Food Lion ¹	51	supermarkets	947	21.9	213
		Food Giant	100	supermarkets	544	NA	NA
					1,491		
26 Financière Cr�dit Suisse-First Boston	Switzerland	First Boston ¹	43	investment banking	1,395	93.0	17,324
27 Royal Insurance Plc	UK	Royal USA	100	insurance	1,380	15.9	2,378
28 Hanson Trust Plc ¹	UK	Interstate United	100	food services	372	13.1	76
		Hygrade Food Products	100	meat processors	307	10.3	56
		Endicott Johnson	100	shoe mfg, retailing	288	27.5	
		Ames Company	100	hand tools	71	10.9	183
		Carisbrook Industries	100	fabric, yarns	219	21.7	97
		Seacoast Products	100	fish oil & meal	43	-3.6	42
					1,300		

¹Publicly traded in U.S. ²Shares held by Inspiration Resources. ³North American operations. E: Estimate. A: Annualized. NA: Not available. Note: Some foreign investors held own U.S. companies indirectly through companies in italics.

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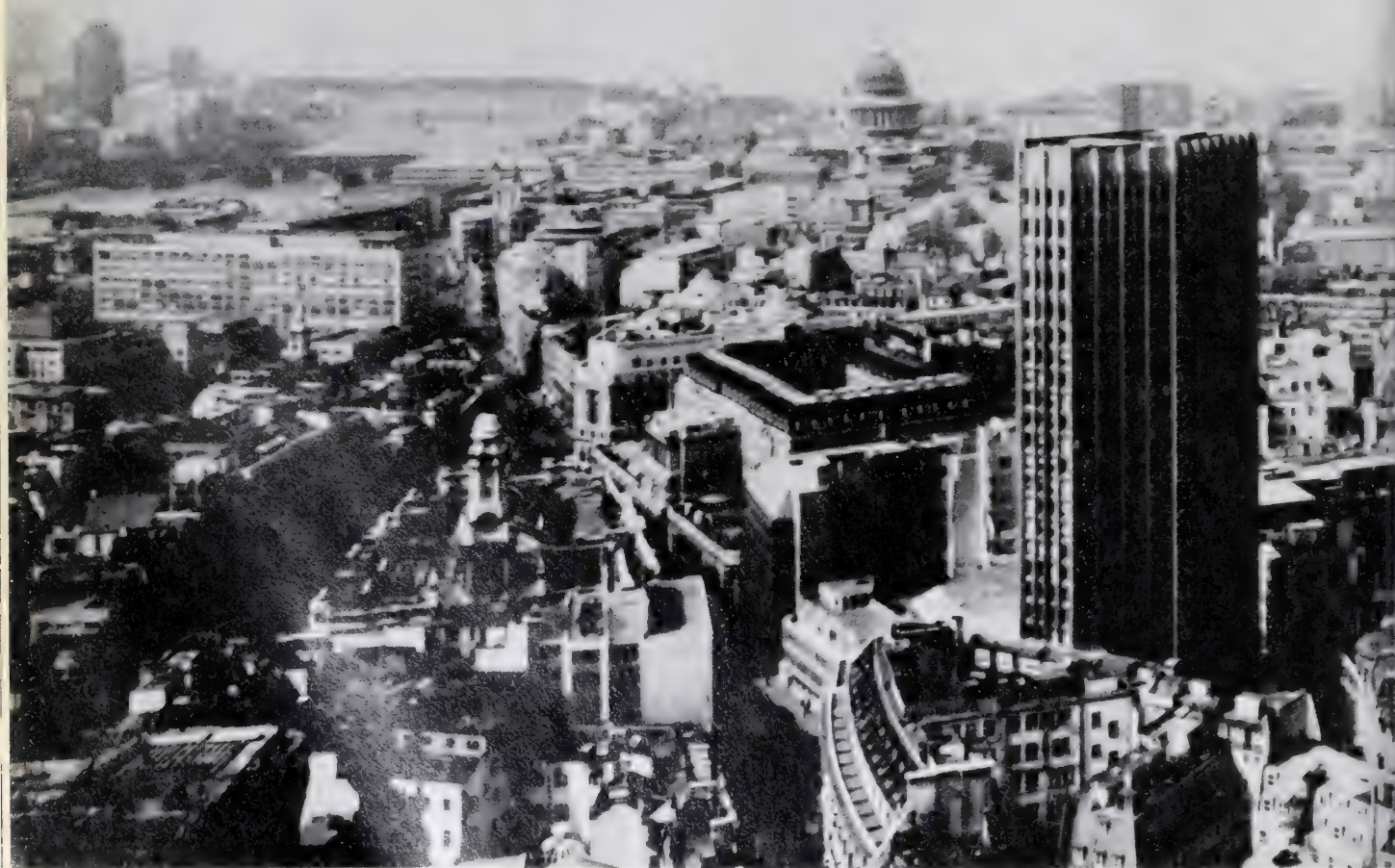
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BRAZIL TELEX 391-213005

SWEDEN & NORWAY TELEX 1505



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SWITZERLAND TELEX 812186	U.K. TELEX 885361	U.S.A. TELEX 233563	USSR TELEX 413258	W. GERMANY TELEX 416500

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Foreign investor	Country	US company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
39 Noranda Mines Ltd¹ <i>MacMillan Bloedel Ltd¹</i>	Canada	Noranda Inc	100%	aluminum	\$ 651	NA	\$1,134
	Canada	MacMillan Bloedel	100	forest products	631	NA	559
					1,282		
40 Henkel KGaA	Germany	Henkel Corp	100	chemicals	400E	NA	NA
		Amchem Products	100	chemicals			
		Clorox ¹	23	household products	867	\$45.1	544
					1,267E		
41 Trade Development Bank Holding	Luxembourg	Republic NY Corp ¹	61	banking	1,249	70.5	9,280
42 Bell Canada¹ <i>Northern Telecom Ltd¹</i>	Canada	Northern Telecom	100	telecommunications	1,226	NA	913
43 Alusuisse	Switzerland	Maremont	100	auto parts	445	NA	310
		Consolidated Aluminum	88	aluminum			
		Lonza	100	aluminum, electrodes			
		Heyward-Robinson	100	engineering, consulting	765	NA	78
		Ormet	58	aluminum, electrodes			
					1,210		
44 Northern Foods Plc	UK	Bluebird Inc	100	meat products	700E	NA	NA
		Keystone Foods	80	meat, poultry	510	NA	NA
					1,210E		
45 Moore Corp Ltd¹	Canada	Moore Business Forms	100	business forms		NA	
		FN Burt Company	100	packaging	1,202		67
46 Thyssen Group¹	Germany	Budd Co	100	auto parts, RR equip, machine tools	1,197	NA	NA
47 Pilkington Brothers Plc	UK	Libbey-Owens-Ford ¹	30	glass	1,099	16.0	830
		Solec Intl	80	photo-optical	70	NA	NA
		CemFIL	90	building materials			
					1,169		
47 Vendex International BV	Netherlands	Dillard Dept Stores ¹	51	retailing	711	22.0	372
		HJ Wilson Co ¹	21	retailing	458	5.6	320
					1,169		
49 Ahold NV¹	Netherlands	BI-LO	100	supermarkets	807	NA	NA
		Giant Food Stores	100	supermarkets	349	NA	NA
					1,156		
50 The BOC Group Plc¹	UK	Airco	100	gases	1,135	43.0	1,240
		Mountain Medical Equip	52	oxygen	14	1.7	13
					1,149		
51 Akzo NV¹	Netherlands	Akzona	100	chemicals, fibers		NA	
		Other companies	100	drugs, chemicals	1,141 ³		850
52 Thyssen-Bornemisza NV	Netherlands	Thyssen-Bornemisza	100	diversified mfr	1,113	NA	3,141
53 General Electric Plc¹	UK	AB Dick	100	office equipment	300E	NA	NA
		Alco Power	100	diesel engines	65E	NA	80
		Picker Intl	80	medical equip & systems	615	NA	300
		Other companies	100	electronics	125E	NA	NA
					1,105E		
54 F Hoffmann-La Roche	Switzerland	Hoffmann-La Roche	100	drugs, chemicals	1,100E	NA	NA
55 Alcan Aluminium Ltd¹	Canada	Alcan Aluminum	100	aluminum	1,093	-1.0	671

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The 100 largest foreign investments in the U.S.

Foreign investor	Country	US company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
56 Pechiney Ugine Kuhlmann	France	Howmet Aluminum Howmet Turbine Components	100% 100	aluminum products engine castings	\$ 534 529 1,063	\$34.4	\$ 744
57 Six European Banks	6 countries	European American Bncp	100	banking	1,061	30.4	8,325
58 Elf Aquitaine Group	France	Elf Aquitaine Inc Other companies	100 34-100	chemicals, energy, mining energy, drilling, drugs	933 106E 1,039	NA NA	NA NA
59 Siemens AG¹	Germany	Siemens Corp Siecor Inc Siemens-Allis Other companies	100 50 85 100	medical, electronics telephone, fiber optics power engineering communications	1,016	NA	NA
60 Imperial Chemical Inds¹	UK	ICI Americas Corpus Christi Petrochem	100 38	drugs, chemicals chemicals	1,000E NA	NA NA	NA NA
61 Swiss Reinsurance Co	Switzerland	N Am Reinsurance N Am Reassurance SwissRe Life Ins Other companies	100 100 100 100	insurance insurance insurance insurance	588 104 190 99 981	23.0 10.0 -3.1 20.4	1,662 496 58 279
62 Bank of Tokyo Ltd¹	Japan	Bank of Tokyo Trust California First Bank ¹	100 76	banking banking	483 493 976	9.5 9.7	4,135 4,156
63 Power Corp of Canada	Canada	Great-West Life Assur	96	insurance	950E	NA	2,540E
64 Canadian Imperial Bank of Commerce¹	Canada	Canadian Imperial Bank of Commerce	100	banking	938E	NA	5,300E
65 Franz Haniel & Cie	Germany	Scrivner Inc	100	wholesale/retail foods	911	11.1	138
66 Canada Development Corp	Canada	Savin ¹ Polysar Inc Canterra Coal Canterra Petroleum	57 100 100 100	office equipment petrochemicals coal energy	469 379 35E 12E 895	-32.2 NA NA NA	407 178 NA NA
67 Standard Chartered Bank Group	UK	Union Bank	100	banking	859	31.0	7,545
68 General Accident Fire & Life Plc	UK	General Accident Ins Am Camden Fire Assurance Penn Gen Insurance Potomac Ins of Illinois	100 100 100 100	insurance insurance insurance insurance	848	81.8	1,835
69 Davy Corp Plc	UK	Davy Inc	100	construction, engineering	843	4.2	260
70 Saint-Gobain	France	CertainTeed Corp ¹	57	building supplies	827	-7.1	617
71 Imasco Ltd¹	Canada	Hardee's Food Systems Shoppers Drug Mart Tinder Box Intl Ltd	100 100 100	fast food health & beauty prods tobacco products	807 14E 821	NA NA	364 NA
72 Natl Westminster Bank Plc	UK	Natl Bank North Amer	100	banking	818	17.5	6,807
73 Johnson Matthey Plc	UK	Johnson Matthey Investments	100	jewelry, metal fabrication	800	NA	364

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The 100 largest foreign investments in the U.S.

Foreign investor	Country	US company	% owned	Industry	Revenue (millions)	Net income (millions)	Asset (millions)
74 Bowater Corp Plc¹	UK	Bowater North America Catawba Newsprint Bowater Computer Forms	100% 51 100	lumber, pulp & paper newsprint business forms	\$786	NA	\$ 820
75 Sun Life Assurance Co of Canada	Canada	Sun Life Assurance (US) Suncan Equity Services Suncan Benefit Services Mass Financial Services	100 100 100 100	insurance financial services financial services financial services	771	NA	2,988
76 Manufacturers Life Insurance	Canada	Manufacturers Life Ins	100	insurance	770E	NA	2,794
77 United Biscuits (Holdings) Plc	UK	Keebler Specialty Brands	100 43	baked goods spices, salad dressing	674 87 761	\$31.3 5.0	325 38
78 Beecham Group Plc¹	UK	Beecham Jovan DAP	100 100 100	drugs, consumer prods cosmetics, fragrances sealants	750	NA	700
79 Nova¹ Husky Oil Ltd¹	Canada Canada	Husky Oil Co	100	energy, steel, charcoal	747	NA	620
79 Ultramar Plc	UK	Ultramar American Ltd	100	energy	747	NA	266
81 Genstar Ltd¹	Canada	Genstar USA	100	bldg matls, financial serv	742	NA	1,150
82 Daimler-Benz Group	Germany	Freightliner Euclid	100 100	automotive automotive	520 191 711	NA NA	NA NA
83 Sandoz Ltd	Switzerland	Sandoz United States Ex-Lax Pharmaceutical	100 100	food, drugs, seeds, chem health care	705	NA	NA
84 Electrolux AB	Sweden	Dometic Inc	100	appliances	697	NA	394
85 Nationale-Nederlanden NV	Netherlands	GeorgiaUS Peerless Insurance Security Life Denver Midwestern United Life Wisconsin National Life Netherlands Insurance	100 100 100 88 100 100	insurance insurance insurance insurance insurance insurance	326 152 83 68 35 20 684	31.8 0.7 31.2 4.2 4.1 0.9	1,270 230 342 264 144 31
86 Ennia NV	Netherlands	National Old Line Equity National Ins American Old Line	100 100 100	insurance insurance insurance	63 16 2	7.5 1.3 0.6	282 20 6
Extendicare Ltd	Canada	Annapolis Life Ins Coronet Life Ins Medco Centers	100 100 100	insurance insurance insurance	536 54 671	NA NA	NA 39
87 Olympia & York Developments Ltd	Canada	Abitibi-Price Landmark Land ¹ Brinco Royal Trustco Trizec Rouse ¹	94 29 52 24 37 25	forest products recreation mining, energy banking property development property dev, banking	190 81 11 71 151 164 668	NA 2.1 NA 3.4 NA 8.1	155 851 10 809 NA 632
88 Allianz Versicherungs AG	Germany	Allianz of America Munich Amer Reinsurance Munich Amer Reassurance	100 45 45	insurance insurance insurance	449 121 41 611	11.0 7.0 0.6	1,615 323 76
89 Rio Tinto-Zinc Plc¹	UK	US Borax & Chemical Indal US	100 59	chemicals building products	350E 250 600E	NA NA	350 170

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The 100 largest foreign investments in the U.S.

Foreign investor	Country	US company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
01 IFI International SA	Luxembourg	Moog Automotive	100%	auto parts			
		Chicago Rawhide	100	auto parts			
		River Cement	40	cement			
		Income International	100	industrial components	\$600	NA	NA
		Hercules Cement	46	cement			
		Signal Cement	46	cement			
02 Sobey Group	Canada	Hannaford Brothers ¹	25	food distribution	559	\$ 7.9	\$ 125
03 AGO Holdings NV	Netherlands	Life Investors ¹	63	insurance	558	27.3	1,353
04 TransCanada PipeLines ¹	Canada	Great Lakes Gas Transmission	50	gas pipeline	536	25.1	401
05 Cadbury Schweppes Plc ¹	UK	Cadbury Schweppes USA	100	food	534	NA	238
06 Baron Edmond de Rothschild	Switzerland	BanCal Tri-State ¹	30	banking	521	8.7	3,839
07 Ivaco	Canada	Laclede Steel ¹	40	steel	178	-8.1	126
		Atlantic Steel	100	steel			
		Capitol Wire & Fence	100	steel			
		Florida Wire & Cable	84	steel			
		National Wire Prods	60	steel	336	NA	257
		New York Wire Mills	100	steel			
		Niagara Lockport Inds	100	paper machine clothing			
					514		
08 Volvo AB	Sweden	Volvo White Truck	100	automotive	342	-14.0	177
		Hamilton Bros Petroleum ¹	25	energy	169	9.0	362
					511		
09 Fiat SpA	Italy	Fiat-Allis	80	construction equip	307	-26.1	237
		Hesston Corp ¹	50	agricultural equip	202	-7.9	144
					509		
10 Thorn EMI Plc	UK	Thorn EMI (US)	100	music, films, electronics	500E	NA	NA
11 Steinberg Inc ¹	Canada	Smitty's Super Valu	100	supermarkets	497	8.2E	194

And the 25 runners-up

Foreign investor	Country	US company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
01 Syntex ¹	Panama	Syntex	100	drugs	495	NA	396
02 Otto Versand	Germany	Spiegel Inc	100	catalog retailing	485	5.3	447
03 "Winterthur" Swiss Insurance Company	Switzerland	Republic Financial Services	100	insurance	481	25.5	938
04 LM Ericsson Telefonaktiebolaget ¹	Sweden	Anaconda-Ericsson	50	telecommun equipment	470	NA	476
		Ericsson Programatic	31	computer software	7	NA	3
					477		
05 Hawker Siddeley Group Plc ¹	UK	Lister Diesels	100	engine assembly	15	NA	11
		FASCO	100	electrical equipment	152	5.0	110
		Onan	37	engines	250E	NA	180E
Carlton Inds	UK	KW Battery	100	industrial batteries	20E	NA	NA
Hawker Siddeley Can	Canada	Corinth Machinery	100	sawmill equip, pumps			
		Dosco	100	mining equipment	30	NA	25
		Tree Farmer Equipment	100	forestry equipment			
					467E		

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And the 25 runners-up

Foreign investor	Country	US company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
106 Inco Ltd ¹	Canada	International Nickel Huntington Alloys	100% 100	metals metals products	\$465	NA	\$ 40
107 Fujitsu Ltd ¹	Japan	Amdahl ¹	24	computers	462	\$4.9	56
108 ASEA Group	Sweden	ASEA (USA)	100	elec & industrial equip	461	NA	N
109 Matsushita Electric Industrial Co ¹	Japan	Matsushita Electric Corp of America	100	electronics	460E	NA	85
110 Olsen, Lehmkuhl Families	Norway	Timex	100	watches	450E	NA	N
110 Sony Corp ¹	Japan	Sony Corp (US)	100	consumer electronics	450E	NA	N
112 L'Air Liquide ¹	France	Liquid Air Corp ¹	61	industrial gases	449	27.5	53
113 Babcock Intl Plc ¹	UK	ACCO/Babcock	100	diversified mfg	440	NA	28
114 S Pearson & Son Plc	UK	Midhurst Corp Pearson Longman (US) Cedar Point ¹	100 100 25	oil services & equipment publishing amusement parks	365E 69 434E	NA 10.6	N N
115 Intl Thomson Org Ltd	Canada	International Thomson	100	publishing, travel, energy	432	NA	46
116 Rhône-Poulenc SA	France	Rhône-Poulenc Dysan Corp ¹	100 20	chemicals data processing equip	281 143 424	NA 9.0	N 17
117 Guest, Keen & Nettlefolds	UK	Guest, Keen & Nettlefolds	100	automotive, steel	418	NA	N
118 Société Auxiliare D'Entreprises	France	Spaw-Glass Continental Heller Pinkerton & Laws	51 72 40	building building building	273 82 60 415	NA NA NA	N N N
119 Koninklijke Wessanen NV	Netherlands	Marigold Foods Friwessa Real Veal Crowley Foods	100 100 100 100	dairy vegetable oil animal feed dairy	400E	NA	N
120 Jefferson Smurfit Group Ltd	Ireland	Alton Packaging Smurfit Industries	100 100	packaging packaging	398	12.1	24
121 IDB Bankholding Corp Ltd	Israel	Israel Discount Bank NY PEC Israel Economic Corp	100 100	banking Israeli-related ventures	373 22 395	14.4 NA	3,07 11
122 BBC-Brown Boveri & Cie	Switzerland	BBC Brown Boveri	100	power equipment	390	NA	35
123 Willy Korf Govt of Kuwait	Germany Kuwait	Korf Industries	70 30	steel, technology	380E	NA	N
123 SKF AB	Sweden	SKF Industries	96	bearings, auto parts	380	NA	N
125 Asamera	Canada	Asamera Oil Asamera Minerals	100 100	energy mining	375	NA	13

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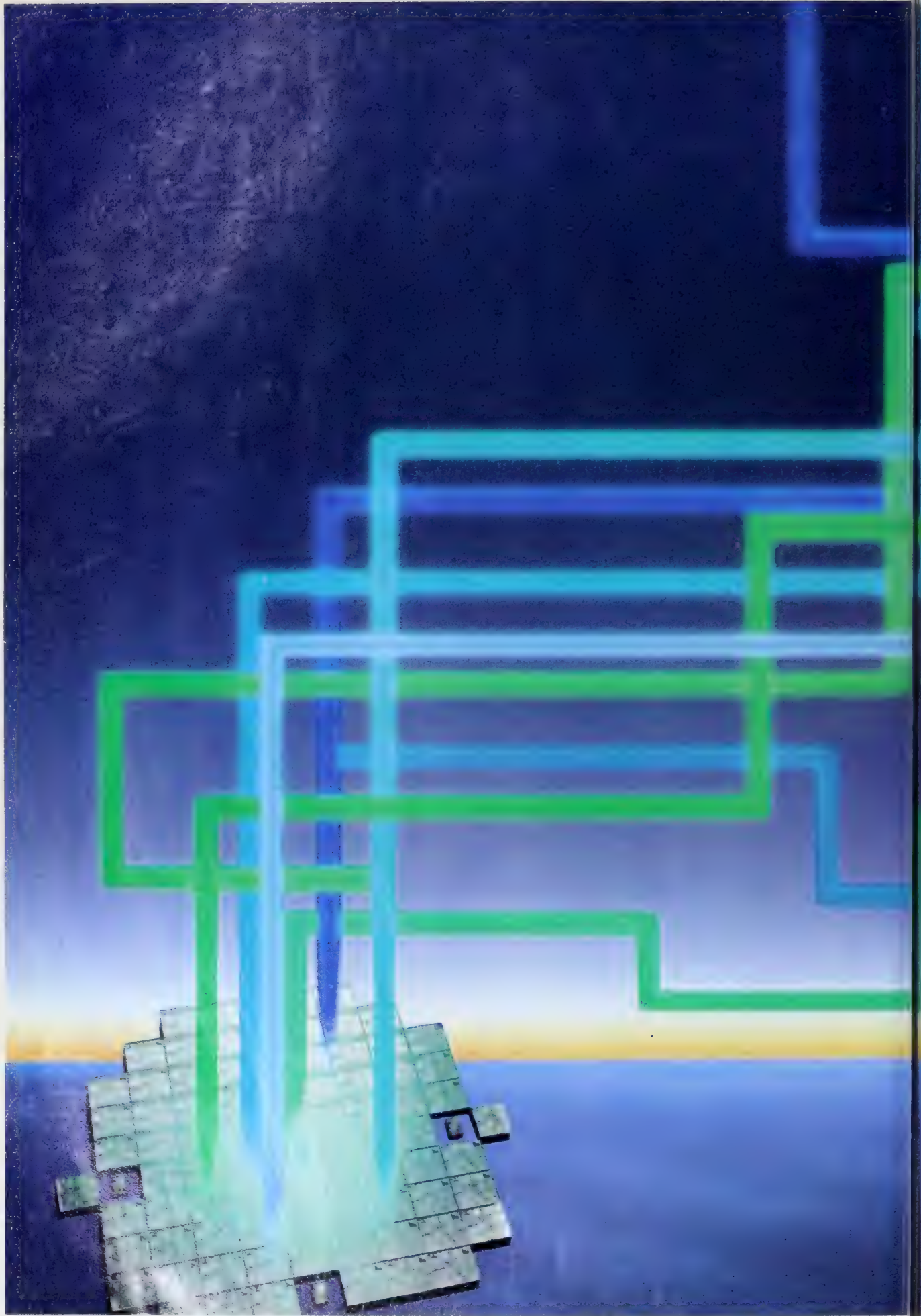
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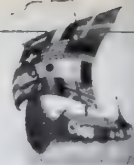
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Hard times... in any language

Multinationals, the pride of U.S. industry, suffer like everyone else in a recession. But after 1982 they might consider suing for assault and battery. Total revenues of the top 100, a figure that usually posts a solid gain, fell nearly 3% to \$1.2 trillion.

Even companies gaining in rank did so primarily because their revenues fell less rapidly than someone else's. Still, there were exceptions: Smith-Kline Beckman, for one, up 23, to 101,

had gains on strong sales and its merger with Beckman Instruments.

On the downside, however, International Harvester fell from 46 to 86 by selling its construction equipment and transmission operations.

Other firms disappeared from this list completely. These include Black & Decker, Foster Wheeler, Norton Simon, Revlon, Signal and Sterling Drug—victims of the weak economy. Replacements, meanwhile, include

four banks—Crocker National, First Interstate, Mellon National and Republic New York—and Allegheny International. Why such a big financial presence? Increased foreign loans, as was the case at Crocker, can be a factor in helping a bank show up on this list. First Interstate's debut comes for different reasons: The bank boosted foreign holdings by keeping short-term money parked in Japan and Europe.

The 100 largest U.S. multinationals

Rank	Company	Foreign revenue (millions)	Total revenue (millions)	Foreign as % of total	Foreign operating profit* (millions)	Total operating profit* (millions)	Foreign as % of total	Foreign assets (millions)	Total assets (millions)	Foreign as % of total
1	Exxon	\$69,386	\$97,173	71.4%	\$2,208	\$4,343	50.8%	\$29,914	\$62,289	48.0
2	Mobil	37,778 ¹	60,969 ¹	62.0	880 ²	1,380 ²	63.8	18,802	36,439	51.6
3	Texaco	31,118	46,986	66.2	833 ²	1,281 ²	65.0	12,956	27,114	47.8
4	Standard Oil Calif	16,957	34,362	49.3	404 ²	1,377 ²	29.3	8,861	23,465	37.8
5	Phibro-Salomon	16,600	26,703	62.2	218 ²	337 ²	64.7	4,600	39,669	11.6
6	Ford Motor	16,526	37,067	44.6	460 ²	-658 ²	P/D	14,327	21,956	65.3
7	IBM	15,336	34,364	44.6	1,646 ²	4,409 ²	37.3	14,122	32,541	43.4
8	General Motors	14,376	60,026	23.9	-107 ²	963 ²	D/P	12,288	41,363	29.7
9	Gulf Oil	11,513	28,427	40.5	300 ²	900 ²	33.3	7,625	20,436	37.3
10	E I du Pont de Nemours	11,057	33,223	33.3	488 ⁶	1,491 ⁶	32.7	5,911	24,343	24.3
11	Citicorp	10,865	17,814	61.0	448 ²	723 ²	62.0	73,316 ⁴	121,482 ¹	60.4
12	Intl Tel & Tel ³	9,824	21,922	44.8	851	1,194	71.3	9,914	29,172	34.0
13	BankAmerica	8,051	14,955	53.8	253 ⁵	389 ⁵	65.0	54,847 ⁴	119,869 ⁴	45.8
14	Chase Manhattan	6,207	10,171	61.0	215 ²	307 ²	70.0	41,387	80,863	51.2
15	Dow Chemical	5,544	10,618	52.2	143	356	40.2	5,260	11,807	44.5
16	General Electric	5,490 ¹	27,192 ¹	20.2	395 ²	1,817 ²	21.7	5,373	21,615	24.9
17	Sun Co	4,901 ¹	15,739 ¹	31.1	54 ⁶	706 ⁶	7.7	2,399	12,019	20.0
18	Standard Oil Indiana	4,862 ¹	28,389 ¹	17.1	618 ²	1,826 ²	33.8	6,470	24,289	26.6
19	Occidental Petroleum	4,715 ¹	18,527 ¹	25.4	345 ⁶	548 ⁶	63.0	3,502	15,773	22.2
20	Safeway Stores	4,380	17,633	24.8	84 ²	160 ²	52.5	1,052	3,891	27.0

*Unless otherwise indicated. ¹Includes other income. ²Net income. ³Includes proportionate interest in unconsolidated subsidiaries or investments. ⁴Average assets. ⁵Income before security gains or losses. ⁶Profit before interest and after taxes. Pretax income. ⁷Excludes international transportation. ⁸Estimate. ⁹Excludes Canada. ¹⁰Continuing operations before taxes. P/D: Profit over deficit. D/P: Deficit over profit. NA: Not available.



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The 100 largest U.S. multinationals

Rank	Company	Foreign revenue (millions)	Total revenue (millions)	Foreign as % of total	Foreign operating profit* (millions)	Total operating profit* (millions)	Foreign as % of total	Foreign assets (millions)	Total assets (millions)	Foreign as % of total
21	J P Morgan	\$4,268	\$ 6,885	62.0%	\$ 283 ²	\$ 394 ²	71.8%	\$32,927	\$58,597	56.2
22	Eastman Kodak	4,181	10,815	38.7	302	1,860	16.2	2,978	10,614	28.0
23	Manufacturers Hanover	3,929	7,640	51.4	147 ²	295 ²	49.8	30,321	64,041	47.3
24	Procter & Gamble	3,737	11,994	31.2	88 ²	777 ²	11.3	1,700	7,510	22.4
25	Xerox	3,630	8,456	42.9	151 ²	424 ²	35.6	3,531	7,668	46.2
26	Goodyear	3,336	8,689	38.4	210	715	29.4	2,209	5,194	42.5
27	Phillips Petroleum	3,042	15,698	19.4	1,199	2,291	52.3	2,756	12,097	22.8
28	Union Carbide	3,010	9,062	33.2	275	657	41.9	3,198	10,616	30.1
29	United Technologies	2,925	13,577	21.5	114 ²	427 ²	26.7	2,204	7,993	27.6
30	Colgate-Palmolive	2,859	4,888	58.5	223	394	56.6	1,055	2,574	41.4
31	Dart & Kraft	2,845	9,974	28.5	301	861	35.0	1,410	5,134	27.5
32	Coca-Cola	2,670	6,250	42.7	638	1,056	60.4	1,438	4,923	29.2
33	CPC International	2,666	4,091	65.2	289	448	64.5	1,540	2,413	63.4
34	Pan Am World Airways	2,624	3,716	70.6	-49	-314	15.6	NA	2,696	N/A
35	Tenneco	2,594	14,979	17.3	354	1,862	19.0	2,761	17,378	15.6
36	Bankers Trust New York	2,587	4,677	55.3	113 ²	223 ²	50.7	21,149	40,427	52.1
37	Minn Mining & Mfg	2,527	6,601	38.3	353	1,048	33.7	1,673	5,514	30.4
38	R J Reynolds Inds	2,484	10,906	22.8	155 ⁸	1,594	9.7	1,422 ⁸	10,355	13.2
39	Johnson & Johnson	2,457	5,761	42.6	446	854	52.2	1,710	4,210	40.6
40	Chemical New York	2,426	5,515	44.0	104 ⁵	269 ⁵	38.7	18,662	48,275	38.7
41	Atlantic Richfield	2,322	26,462	8.8	20 ²	1,676 ²	1.2	1,626	21,633	7.5
42	F W Woolworth	2,289	5,124	44.7	104	257	40.5	986	2,489	39.7
43	GTE	2,135	12,066	17.7	65 ²	836 ²	7.8	3,376	22,294	15.1
44	Continental Illinois	2,130	5,900	36.1	51 ²	78 ²	65.4	14,753 ⁹	42,899	34.4
45	Getty Oil ³	2,119	12,762	16.6	826	1,794	46.0	1,838	11,404	16.3
46	Sperry	2,114	5,571	37.9	213	631	33.8	2,003	5,343	37.4
47	Beatrice Foods	2,112	9,188	23.0	166	773	21.5	903	4,732	19.1
48	General Foods	2,088	8,351	25.0	109	634	17.2	1,039	3,861	26.6
49	Halliburton	2,062	7,282	28.3	280	856	32.7	1,673	5,582	30.1
50	American Express	2,033	8,093	25.1	208	907	22.9	9,124	28,311	32.4
51	First Chicago	1,998	4,402	45.4	44 ²	137 ²	32.1	14,573	35,876	40.5
52	Fluor	1,995	7,336	27.2	157	427	36.8	1,009	4,701	21.5
53	Nabisco Brands	1,941	5,871	33.1	194	635	30.6	1,224	3,692	33.2
54	Trans World	1,905	5,108	37.3	175	144	121.5	1,033	3,536	29.3
55	Monsanto	1,842	6,325	29.1	80	541	14.8	1,209	6,077	19.8
56	American Brands ³	1,826	4,563	40.0	166	782	21.2	1,372	6,256	21.8
57	Pfizer	1,816	3,454	52.6	299	615	48.6	1,733	3,749	46.3
58	Hewlett-Packard	1,759	4,254	41.3	252 ⁷	676 ⁷	37.3	958	3,470	27.6
59	Sears, Roebuck ³	1,755	31,044	5.7	-36 ²	830 ²	D/P	1,142	37,057	3.1
60	Burroughs	1,738 ¹	4,186 ¹	41.5	288	306	94.1	1,375	4,123	33.5
61	NCR	1,737	3,526	49.3	231	473	48.8	1,339	3,373	39.7
62	American Intl Group	1,655 ¹⁰	3,563	46.4	289 ¹⁰	479	60.3	3,993 ¹⁰	9,120	43.7
63	K mart ³	1,650	17,657	9.3	28 ²	262 ²	10.7	656	7,520	8.7
64	Chrysler	1,548	10,045	15.4	-35 ¹¹	-68 ¹¹	51.5	1,314	6,264	21.0
65	Honeywell	1,502	5,490	27.4	160	427	37.5	1,148	4,471	25.5
66	Union Oil California	1,501 ¹	10,556 ¹	14.2	57 ²	804 ²	7.1	1,216	8,511	14.2
67	Allied Corp	1,479	6,167	24.0	677	785	86.2	1,010	6,272	16.1
68	Bank of Boston	1,456	2,745	53.0	25 ²	124 ²	20.2	7,982 ⁴	17,506 ⁴	45.2
69	PepsiCo	1,451	7,499	19.3	22	698	3.2	1,266	4,197	30.3
70	American Home Products	1,412	4,582	30.8	256	1,047	24.5	699	2,832	24.5
71	Deere	1,402	4,608	30.4	-63	136	D/P	1,180	5,936	19.9
72	Digital Equipment	1,383	3,881	35.6	215	585	36.8	1,118	4,024	27.8
73	Consolidated Foods	1,372	6,039	22.7	93 ⁷	272 ⁷	34.2	780	2,399	32.5
74	H J Heinz	1,371	3,689	37.2	126	362	34.8	811	2,130	38.1
75	Continental Group ³	1,356	5,564	24.4	63	339	18.6	666	5,727	11.6

*Unless otherwise indicated. ¹Includes other income. ²Net income. ³Includes proportionate interest in unconsolidated subsidiaries or investments. ⁴Average assets. ⁵Income before security gains or losses. ⁶Profit before interest and after taxes. ⁷Pretax income. ⁸Excludes international transportation. ⁹Estimate. ¹⁰Excludes Canada. ¹¹Continuing operations before taxes. P/D: Profit over deficit. D/P: Deficit over profit. NA: Not available.

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INTERNATIONAL EXPRESS MAIL SERVICE

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The 100 largest U.S. multinationals



Rank	Company	Foreign revenue (millions)	Total revenue (millions)	Foreign as % of total	Foreign operating profit* (millions)	Total operating profit* (millions)	Foreign as % of total	Foreign assets (millions)	Total assets (millions)	Foreign as % of total
76	Scott Paper ³	\$1,355	\$3,648	37.1%	\$ -40	\$ 74	D/P	\$ 1,120	\$3,270	34.3%
77	Warner-Lambert	1,352	3,246	41.7	282	597	47.2%	953	2,906	32.8
78	Merck	1,349	3,063	44.0	229	603	38.0	1,536	3,648	42.1
79	Texas Instruments	1,330	4,327	30.7	130	213	61.0	807	2,631	30.7
80	Irving Bank	1,317	2,277	57.8	48 ⁵	83 ³	57.8	10,900 ⁹	19,514	55.9
81	W R Grace	1,274	6,128	20.8	190 ⁷	604 ⁷	31.5	821	4,916	16.7
82	Murphy Oil	1,269 ¹	2,682 ¹	47.3	95 ²	158 ²	60.1	1,126	2,990	37.7
83	Caterpillar Tractor	1,250	6,469	19.3	-17	-253	6.7	1,090	7,201	15.1
84	Gillette	1,241 ¹⁰	2,239	55.4	166 ¹⁰	319	52.0	968 ¹⁰	1,667	58.1
85	Motorola	1,230	3,786	32.5	58	304	19.1	688	2,833	24.3
86	International Harvester	1,227	4,292	28.6	-62	-281	22.1	551	3,699	14.9
87	Gulf & Western Inds ³	1,224	6,423	19.1	188	482	39.0	1,900 ⁹	10,902	17.4
88	Bristol-Myers	1,223	3,600	34.0	211	657	32.1	848	2,756	30.8
89	American Cyanamid	1,220	3,454	35.3	66 ²	132 ²	50.0	794	2,997	26.5
90	Avon Products	1,219	3,001	40.6	158	415	38.1	693	2,233	31.0
91	Firestone	1,209	3,869	31.2	89	99	89.9	851	2,672	31.8
92	Westinghouse Electric	1,185	9,745	12.2	86	709	12.1	807	8,427	9.6
93	Philip Morris	1,166	9,102	12.8	119	1,638	7.3	1,486	9,692	15.3
94	Allegheny International ³	1,157	3,167	36.5	92	234	39.3	579	2,104	27.5
95	Ralston Purina	1,155	4,803	24.0	10	255	3.9	360	2,114	17.0
96	TRW	1,149	5,132	22.4	135	426	31.7	829	3,125	26.5
97	Security Pacific	1,100	4,491	24.5	74 ²	234 ²	31.6	9,184	36,991	24.8
98	Carnation	1,095	3,382	32.4	73	335	21.8	358	1,712	20.9
99	Marine Midland Banks	1,093	2,412	45.3	41 ²	87 ²	47.1	8,436	20,239	41.7
100	Litton Industries	1,093	4,942	22.1	125	581	21.5	454	3,837	11.8

And the 25 runners-up

Rank	Company	Foreign revenue (millions)	Total revenue (millions)	Foreign as % of total	Foreign operating profit* (millions)	Total operating profit* (millions)	Foreign as % of total	Foreign assets (millions)	Total assets (millions)	Foreign as % of total
101	SmithKline Beckman	\$1,087	\$2,969	36.6%	\$227	\$671	33.8%	\$ 839	\$2,858	29.4%
102	Eli Lilly	1,065	2,963	35.9	78 ²	412 ²	18.9	937	3,155	29.7
103	Control Data	1,060	4,292	24.7	111	220	50.5	993	6,912	14.4
104	Quaker Oats	1,052	2,712	38.8	90	272	33.1	552	1,477	37.4
105	Kimberly-Clark	1,037	2,946	35.2	79	288	27.4	1,079	2,664	40.5
106	Singer	1,004	2,523	39.8	17	81	21.0	680	1,422	47.8
107	City Investing	1,000	5,771	17.3	90	428	21.0	835	7,555	11.1
108	Ingersoll-Rand	974	2,775	35.1	48	187	25.7	751	2,403	31.3
109	Hercules ³	970	2,858	33.9	75	143	52.4	781	2,180	35.8
110	United Brands	969	3,973	24.4	-9	39	D/P	522	1,265	41.3
111	Armco ³	966	6,279	15.4	64	68	94.1	712	6,208	11.5
112	Dresser Industries	942	4,166	22.6	77	323	23.8	763	3,311	23.0
113	RCA ³	930	9,338	10.0	52 ⁷	321 ⁷	16.2	933	12,932	7.2
114	American Standard	929	2,125	43.7	80	103	77.7	565	1,520	37.2
115	Mellon National	857	2,355	36.4	43 ²	134 ²	32.1	7,781	20,294	38.3
116	Kellogg	853	2,367	36.0	65 ²	228 ²	28.5	496	1,297	38.2
117	First Interstate	846	4,608	18.4	19 ²	221 ²	8.6	8,124	40,884	19.9
118	Schering-Plough	838	1,818	46.1	112	300	37.3	804	2,429	33.1
119	Anderson, Clayton	832	1,681	49.5	19 ²	55 ²	34.5	327	909	36.0
120	Crocker National	826	2,894	28.5	49 ²	72 ²	68.1	7,234	24,939	29.0
121	Republic New York	823	1,249	65.9	48 ²	71 ²	67.6	5,991	9,280	64.6
122	Levi Strauss	821	2,572	31.9	77	334	23.1	407	1,621	25.1
123	Morrison-Knudsen	819	2,361	34.7	53	147	36.1	239	893	26.8
124	Borg-Warner	801	3,195	25.1	57	227	25.1	402	2,463	16.3
125	Combustion Engineering	800	3,570	22.4	41 ¹	158 ²	25.9	588	2,824	20.8

*Unless otherwise indicated. ¹Includes other income. ²Net income. ³Includes proportionate interest in unconsolidated subsidiaries or investments. ⁴Average assets. ⁵Income before security gains or losses. ⁶Profit before interest and after taxes. ⁷Pretax income. ⁸Excludes international transportation. ⁹Estimate. ¹⁰Excludes Canada. ¹¹Continuing operations before taxes. P/D: Profit over deficit. D/P: Deficit over profit. NA: Not available.



Will Rodzewich, student, talks about his father, chemist with Henkel's Amchem Products, Inc., Ambler

"Dad's work at Henkel taught me a lot about winning."

"A winner sees an answer for every problem, a loser sees a problem in every answer." That's what my football coach always told us, and by that definition, my dad is a winner.

As a chemist in Research and Development with Amchem Products, a division of Henkel Corporation, dad faces a lot of situations where it would be easy to lose. It's his job to come up with products that prepare metal to accept paint, and keep that paint on through the worst kind of environmental and wear circumstances. And the problem is compounded by customer plant conditions, and the state of the raw metal, and many other factors. Whatever kind of problem it may be, dad always seems to come up with the answer. That's why dad travels so much—within the U.S. and in foreign countries as well. He goes to customer plants all

over the world to solve their metals treatment problems.

One of his trips was to a Henkel company in Germany which had been licensed to use Amchem's technology more than twenty-five years ago. So when Henkel acquired Amchem in 1979, dad said, 'it's a natural combination'. I think he was right. Since acquisition by Henkel, Amchem has expanded and so have dad's responsibilities.

Anyway you look at it, my dad's a winner, and I think that helped me work harder at being a winner in football.

And it surely won't hurt me in my plans to become a mechanical engineer."



My dad, Ed Rodzewich

Henkel Corporation, Minneapolis, U.S.A., with its Amchem Products Division, is one of more than 100 companies of the Henkel Group, situated in more than 40 countries. Worldwide sales over 9 billion DM. 34,000 employees. Headquarters Düsseldorf, Federal Republic of Germany. Product range includes laundry products, household cleaners, cosmetics, adhesives, industrial cleaners, oleochemicals, auxiliary products for textile and leather industries. Over 8,000 products for all walks of life.

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Why Morgan the fastest growing lea

In 1982 Morgan Guaranty Ltd—the Eurobond underwriting subsidiary of Morgan Guaranty Trust Company—ranked fourth among lead managers and joint lead managers of Eurobond issues, up from 12th place in 1981 and 36th place in 1980. As the tables show, we're maintaining that high position this year.

How did we achieve this record—in competition with the world's leading banks, investment banks, and merchant banks—when Morgan Guaranty Ltd didn't start business until late 1979?

We earned it by providing issuers with financing structures that not only respond to their specific needs but also take

maximum advantage of changing market opportunities.

A changing environment

As an issuer today you have to deal with more change than ever before. Rule 415, the increasing institutionalization of international capital markets, rate hedging options, and arbitrage techniques such as interest rate and currency swaps have radically altered markets and financing strategies. You want an underwriter with the skill and imagination to respond quickly to any new development.

Morgan Guaranty Ltd's understanding of and adaptability to the changing market environment have led to many innovations which have bene-

fited issuers. The first debt warrant exercisable into a zero coupon security, for example. The first partly paid dollar issue in 1982. The only Euro-sterling issue for a U.S. corporation during 1982.

And we recently managed the first issue with a deferred rate setting. With this technique a borrower who feels that rates will decline can take immediate advantage of a favorable market opportunity but have a number of months during which the cost of the financing can be fixed.

With change a constant, we're committed to finding financing alternatives to meet your needs under any market conditions.

Our resources are important

Eurobond rankings—1982

1982 rank		1981 rank	No. of issues	Dollars in millions*
1	Credit Suisse First Boston Limited	1	92	\$7,246
2	Deutsche Bank AG	3	67	5,042
3	Morgan Stanley International	2	63	3,776
4	Morgan Guaranty Ltd	12	42	2,012
5	Salomon Brothers International	6	40	1,773
6	Swiss Bank Corporation Int'l Limited	16	22	1,742
7	Merrill Lynch International & Co.	5	36	1,714
8	S.G. Warburg & Co. Ltd.	4	36	1,566
9	Goldman Sachs International Corp.	13	28	1,198
10	Société Générale	10	25	1,016

Eurobond rankings—1983 first quarter

1983 rank		No. of issues	Dollars in millions
1	Credit Suisse First Boston Limited	21	\$2,746
2	Deutsche Bank AG	23	1,602
3	Morgan Stanley International	13	765
4	Morgan Guaranty Ltd	15	582
5	Société Générale	6	507
6	S.G. Warburg & Co. Ltd.	14	456
7	Dresdner Bank AG	7	413
8	Algemene Bank Nederland NV	7	361
9	Amro International Limited	10	297
10	Daiwa Europe Limited	8	290

Source: Euromoney Publications Ltd. *All notes and bonds. Sole lead managers receive full amount of the issue; joint lead managers receive equal amounts.

Guaranty Ltd is manager of Eurobonds



Morgan Guaranty Ltd draws on the skills of Morgan people worldwide. In London, left, are managing director Tony Mayer with Tom Fleming, David Craig, Mark Hausberg, Claus Löwe. Morgan bankers in New York are Trisha McGlothlin; Dennis Weatherstone, chairman of the executive committee of The Morgan Bank and MGL chairman; Walter Gubert; Robert Engel, executive vice president and treasurer; Lorin Lear; Roberto Mendoza.

to clients, too. Morgan is a major participant in the international capital markets, the U.S. Government bond market, the futures markets, the foreign exchange markets, the bullion markets, and the major local-currency money markets. So we're especially well positioned to capitalize on the increasing interdependence of financial markets and create cost-effective

solutions to financing problems.

Less cost and risk
And Morgan's capital strength helps us to implement the solutions efficiently. For instance, while all underwriters can make commitments for a bond issue, we can also make firm commitments as principal in rate and currency swaps, reducing both cost and risk for our clients.

Market opportunities—and

new ways to take advantage of them—come and go. Our objective is to provide consistent, imaginative services in the capital markets with the same quality and professionalism that long have characterized all Morgan banking business.

Morgan Guaranty Ltd,
30 Throgmorton Street,
London EC2N 2NT

Morgan Guaranty Ltd



The Japanese try harder

The Japanese trading firms and British Petroleum and Royal Dutch/Shell again top this roster. Indeed, ranked by sales, the Japanese and British companies dominate the list, including the runners-up. Almost one-third of the largest foreign companies are Japanese, with a combined total of \$657 billion in revenues. The U.K. component includes roughly half as many companies, with less than half

of the revenues, some \$318 billion.

Further down the nationality ranking come other European countries and Canada. Germany is third with 18 firms, and France is close behind with 17; revenues from each country hover around \$200 billion. Also represented, but well below the top four, are Italy and the Netherlands.

For those who believe in the eventual dominance of services over the

real producers, consider the following. Our top companies fall into these categories: energy (21), multicompanies (10), automotive (9) and electrical equipment (9). Banking, however, is represented by 23 firms, while there are 9 wholesalers. More important, banks showed the most improvement in revenues, with Bank of Tokyo the star performer—up 36%. The rising sun just never seems to set.

The 100 largest foreign companies

Company	Fiscal year-end	Revenue ¹ (millions)	Net income (millions)	Assets (millions)	Market value of common ² (millions)	Corporate headquarters	Industry	Employees (thousands)
1 Royal Dutch/Shell Group	Dec	\$83,809	\$3,489	\$69,594	\$16,934 ³	Netherlands/UK	energy	163
2 Mitsubishi Corp	Mar	68,721	149	20,355	2,952	Tokyo, Japan	wholesaler	15
3 Mitsui & Co Ltd	Mar	68,184	5	20,405	1,697	Tokyo, Japan	wholesaler	12
4 C Itoh & Co Ltd	Mar	55,863	22	15,006	1,124	Tokyo, Japan	wholesaler	10
5 Marubeni Corp	Mar	52,199	7	15,612	1,065	Osaka, Japan	wholesaler	10
6 British Petroleum Co Plc	Dec	51,353	1,246	42,403	8,682	London, UK	energy	143
7 Sumitomo Corp	Mar	48,389	128	10,945	1,238	Osaka, Japan	wholesaler	11
8 Nissho Iwai Corp	Mar	34,661	16	9,342	526	Tokyo, Japan	wholesaler	7
9 ENI-Ente Nazionale Idrocarburi	Dec	27,525	-1,202	28,810 ⁴	none ⁵	Rome, Italy	energy	144
10 IRI-Istituto Ricostruzione Industriale	Dec	24,833	-1,975	48,558 ⁴	none ⁵	Rome, Italy	multicompany	525
11 Unilever	Dec	23,134	660	11,725	4,611 ³	Netherlands/UK	consumer goods	283
12 TOTAL Group (Française des Pétroles)	Dec	20,040	-81	13,096	485	Paris, France	energy	47
13 Petroleos Mexicanos	Dec	19,624	10	34,349	none ⁵	Mexico City, Mex	energy	150
14 VEBA Group	Dec	19,318	124	12,756 ⁴	1,957	Duesseldorf, Ger	energy	80
15 Petróleo Brasileiro SA	Dec	18,937	577	15,283	398	Rio de Janeiro, Brazil	energy	70
16 Nippon Tel & Tel Public Corp	Mar	18,010	1,564	40,165	none ⁵	Tokyo, Japan	telecommun	327
17 Toyo Menka Kaisha Ltd	Mar	17,656	5	4,991	274	Osaka, Japan	wholesaler	4
18 Elf Aquitaine Group	Dec	17,468	537	19,776	1,394	Paris, France	energy	59
19 Deutsche Bundespost	Dec	17,335	1,101	33,648	none ⁵	Bonn, Germany	communications	485
20 Nissan Motor Co Ltd	Mar	17,147	447	11,992	6,042	Tokyo, Japan	automotive	60
21 Siemens Group	Sept	16,976	280	14,550	4,406	Munich, Germany	elec equipment	324
22 Nippon Oil Co Ltd	Mar	16,852	25	6,867	4,016	Tokyo, Japan	energy	11
23 Toyota Motor Corp	June	16,483 ⁶	606 ⁶	10,792	12,620	Toyota City, Japan	automotive	56
24 Petróleos de Venezuela SA	Dec	16,473	2,539	22,826	none ⁵	Caracas, Venezuela	energy	44
25 PTT-Postes et Télécommunications	Dec	16,387	NA	90,487 ⁴	none ⁵	Paris, France	communications	483
26 NV Philips Lamp	Dec	16,100	162 ⁷	16,496 ⁷	1,890	Eindhoven, Neth	elec equipment	336
27 Daimler-Benz Group	Dec	16,033	389	9,545	5,036	Stuttgart, Germany	automotive	185
28 Kanematsu-Gosho Ltd	Mar	15,954	-7	5,185	175	Tokyo, Japan	wholesaler	4
29 Renault Group	Dec	15,846	-216	11,694	none ⁵	Boul-Billancourt, Fr	automotive	217
30 Hitachi Ltd	Mar	15,799	603	17,374	9,921	Tokyo, Japan	elec equipment	155

¹Revenue is for "group" or consolidated and excludes excise taxes and duties. ²As of Dec. 31, 1982. ³Combined market value. ⁴Figures for year ended Dec. 31, 1981. ⁵Government, privately owned or mutual. ⁶Not fully consolidated. ⁷Based on current cost accounting. NA: Not available. E: Estimated. P: Preliminary. General notes: Revenue and net income are converted at an average rate of exchange for the fiscal year; assets are converted at a rate of exchange at fiscal year-end. Figures for 1982 were used for those March fiscal-year companies for which 1983 results were not available at press time.

The 100 largest foreign companies

Company	Fiscal year-end	Revenue ¹ (millions)	Net income (millions)	Assets (millions)	Market value of common ² (millions)	Corporate headquarters	Industry	Employees (thousands)
1 Volkswagen Group	Dec	\$15,427	\$ 96	\$10,887	\$1,456	Wolfsburg, Ger	automotive	239.1
2 Fiat Group	Dec	15,305	NA	19,039 ¹	552	Turin, Italy	automotive	265.0
3 The Electricity Council	Mar	15,261	-153 ⁷	61,934 ⁷	none ³	London, UK	utility	146.7
4 National Iranian Oil Co	Dec	15,000E	NA	NA	none ³	Tehran, Iran	energy	NA
5 Nichimen Corp	Mar	14,928	6	4,998	256	Osaka, Japan	wholesaler	3.6
6 Matsushita Electric Industrial Co	Nov	14,771	636	12,539	9,491	Osaka, Japan	elec equipment	121.3
7 Tokyo Electric Power Co ⁶	Mar	14,676	255	29,610	5,394	Tokyo, Japan	utility	40.1
8 Nippon Steel Corp	Mar	14,420	258	15,176	4,017	Tokyo, Japan	steel	69.6 ⁶
9 Hoechst Group	Dec	14,418	104	10,976	2,238	Frankfurt, Germany	chemicals	182.2
10 BASF Group	Dec	14,359	113	8,476	2,111	Ludwigshafen, Ger	chemicals	115.9
11 Bayer Group	Dec	14,355	59	12,181	2,429	Leverkusen, Ger	chemicals	179.5
12 Nestlé	Dec	13,626	541	9,505	4,080	Vevey, Switzerland	food processing	141.5
13 Idemitsu Kosan Co Ltd ⁶	Mar	13,565	-155	7,437	none ³	Tokyo, Japan	energy	7.7
14 Barclays Bank Group	Dec	13,510	576	95,329	2,165	London, UK	banking	120.0
15 Electricité de France	Dec	13,276	-1,202	40,695	none ³	Paris, France	utility	121.8
16 Mitsubishi Heavy Inds Ltd	Mar	13,247	105	16,569	2,604	Tokyo, Japan	indl machinery	95.4
17 Crédit Lyonnais Group	Dec	13,112	122	96,735	none ³	Paris, France	banking	45.5 ⁶
18 Banque Nationale de Paris Group	Dec	13,022	184	109,944	none ³	Paris, France	banking	60.0
19 Thyssen Group	Sept	12,957	-28	7,036	758	Duisburg, Germany	steel	143.9
20 Imperial Chemical Inds Plc	Dec	12,880	254	11,779	3,505	London, UK	chemicals	123.8
21 Nippon Life Insurance Co	Mar	12,256	1,806	28,815	none ³	Osaka, Japan	insurance	15.1
22 Kuwait Petroleum Corp	June	12,234	1,054	10,792	none ³	Safat, Kuwait	energy	13.0
23 INI-Instituto Nacional de Industria	Dec	12,225	-928	23,408	none ³	Madrid, Spain	multicompany	230.0
24 Volvo Group	Dec	12,037	186	6,344	1,252	Gothenburg, Sweden	automotive	75.1
25 National Westminster Bank Plc	Dec	11,760	700	87,969	1,737	London, UK	banking	88.5
26 Peugeot Groupe SA	Dec	11,451	-327	8,761	216	Paris, France	automotive	209.4
27 Midland Bank Group	Dec	11,327	253	77,495	823	London, UK	banking	91.4
28 British National Oil Corp	Dec	11,318	102	537	none ³	London, UK	oil trading	0.1
29 B.A.T Industries Plc	Dec	11,300E	788	10,402	3,669	London, UK	multicompany	178.0
30 Deutsche Bundesbahn	Dec	10,962	-1,710	25,889	none ³	Frankfurt, Germany	transportation	332.7
31 British Telecom	Mar	10,915	875	17,587	none ³	London, UK	telecommun	245.9
32 Royal Bank of Canada	Oct	10,332	292	72,156	1,996	Montreal, Canada	banking	39.8
33 Toshiba Corp	Mar	10,301	195	9,224	3,937	Kawasaki, Japan	elec equipment	103.0
34 ENEL	Dec	10,150P	-1,800P	38,000P	none ³	Rome, Italy	utility	116.6
35 Bank Hapoalim BM	Dec	10,132	192	22,263	1,764	Tel Aviv, Israel	banking	10.3
36 Cie Générale d'Electricité	Dec	10,012	75E	11,868 ⁴	none ³	Paris, France	elec equipment	192.2
37 British Gas Corp	Mar	10,011	275 ⁷	21,334 ⁷	none ³	London, UK	utility	105.8
38 NV Nederlandse Gasunie	Dec	9,999	30	2,963	none ³	Groningen, Neth	energy	1.8
39 Canadian Pacific Ltd	Dec	9,962	153	14,050	2,091	Montreal, Canada	multicompany	127.0
40 ÖIAG-Österreichische Industrie-verwaltungs AG	Dec	9,854	0	4,099	none ³	Vienna, Austria	metals	109.6
41 RWE Group	June	9,783	201	10,735	1,918	Essen, Germany	energy	70.1
42 Société Générale Group	Dec	9,471	139	85,742	none ³	Paris, France	banking	46.5
43 INH-Instituto Nacional de Hidrocarburos	Dec	9,349P	NA	7,237P	none ³	Madrid, Spain	energy	21.0
44 Petrofina SA	Dec	9,216	265	5,703	1,426	Brussels, Belgium	energy	21.0
45 National Coal Board	Mar	9,040	-819	9,221	none ³	London, UK	energy	282.0
46 Honda Motor Co Ltd	Feb	8,926	289	5,615	3,438	Tokyo, Japan	automotive	46.2
47 Deutsche Bank Group	Dec	8,737	135	83,808	3,125	Frankfurt, Germany	banking	45.6
48 Dai-Ichi Kangyo Bank	Mar	8,519	159	99,957	4,943	Tokyo, Japan	banking	23.7
49 Banco do Brasil	Dec	8,442	990	60,918	716	Brasilia, Brazil	banking	119.4
50 Maruzen Oil Co Ltd	Mar	8,085	-406	4,369	449	Osaka, Japan	energy	4.0

Revenue is for "group" or consolidated and excludes excise taxes and duties. ²As of Dec. 31, 1982. ³Combined market value. ⁴Figures for year ended Dec. 31, 1981. ⁵Government, privately owned or mutual. ⁶Not fully consolidated. ⁷Based on current cost accounting. NA: Not available. E: Estimated. P: Preliminary.

General notes: Revenue and net income are converted at an average rate of exchange for the fiscal year; assets are converted at a rate of exchange at fiscal year-end. Figures for 1982 were used for those March fiscal-year companies for which 1983 results were not available at press time.

The 100 largest foreign companies

Company	Fiscal year-end	Revenue ¹ (millions)	Net income (millions)	Assets (millions)	Market value of common ² (millions)	Corporate headquarters	Industry	Employee (thousands)
81 Lloyds Bank Group	Dec	\$8,084	\$425	\$55,631	\$1,234	London, UK	banking	70
82 Crédit Agricole	Dec	8,064E ⁶	174	98,507	none ⁵	Paris, France	banking	70
83 Hyundai Group	Dec	8,036	108	6,070	none ⁵	Seoul, Korea	multicompany	137
84 General Electric Co Plc	Mar	8,012	684	7,212	9,302	London, UK	elec equipment	189
85 Tengelmann Group	June	8,000E	NA	NA	none ⁵	Muelheim, Ger	retailer	75
86 Indian Oil Corp Ltd	Mar	7,981	120	NA	none ⁵	Bombay, India	energy	25
87 Canadian Imperial Bank of Commerce	Oct	7,980	229	55,825	1,066	Toronto, Canada	banking	35
88 Gutehoffnungshütte Group	June	7,953	20 ⁶	5,154 ⁶	613	Oberhausen, Ger	industrial equip	85
89 Barlow Rand Group	Sept	7,778	220	5,895	1,490	Johannesburg, S Af	multicompany	236
90 Saint-Gobain	Dec	7,760	38	6,733	none ⁵	Paris, France	building prods	138
91 Bank of Tokyo	Mar	7,736	125	75,736	1,981	Tokyo, Japan	banking	15
92 Kansai Electric Power Co	Mar	7,578	222	17,313	3,416	Osaka, Japan	utility	24
93 Bank of Montreal	Oct	7,565	210	50,597	1,348	Montreal, Canada	banking	29
94 Mitsubishi Bank Ltd	Mar	7,483	177	84,081	4,739	Tokyo, Japan	banking	16
95 Sumitomo Bank Ltd	Mar	7,435	248	86,607	4,749	Osaka, Japan	banking	16
96 Peninsular & Oriental Steam Navigation Co	Dec	7,362	1	2,447	248	London, UK	multicompany	19
97 Bank Leumi le-Israel BM	Dec	7,331	142	23,407	1,586	Tel Aviv, Israel	banking	15
98 Fuji Bank Ltd ⁶	Mar	7,289	229	87,870	4,739	Tokyo, Japan	banking	17
99 Ruhrkohle	Dec	7,251	18	5,770	none ⁵	Essen, Germany	mining	134
100 Nippon Kokan KK	Mar	7,165	137	10,346	1,795	Tokyo, Japan	steel	37

And the 25 runners-up

Company	Fiscal year-end	Revenue ¹ (millions)	Net income (millions)	Assets (millions)	Market value of common ² (millions)	Corporate headquarters	Industry	Employee (thousands)
101 Le Groupe Thomson	Dec	\$7,156	NA	\$ 7,818 ⁴	none ⁵	Paris, France	elec equipment	128
102 Paribas Group	Dec	6,956P	\$ 77P	51,584P	none ⁵	Paris, France	banking	26
103 Krupp Group	Dec	6,890	NA	4,417	none ⁵	Essen, Germany	steel	78
104 Chubu Electric Power ⁶	Mar	6,855	219	10,168	\$2,550	Nagoya, Japan	utility	19
105 Bell Canada	Dec	6,818	504	10,917	3,721	Montreal, Canada	telecommun	97
106 NV DSM	Dec	6,806	-70	3,501	none ⁵	Heerlen, Neth	chemicals	28
107 CIBA-GEIGY Group	Dec	6,801	344	9,447 ⁷	2,495	Basle, Switzerland	chemicals	79
108 Mannesmann Group	Dec	6,787	108	4,516	1,373	Duesseldorf, Ger	industrial equip	112
109 Montedison Group	Dec	6,668	-635	7,506	426	Milan, Italy	chemicals	84
110 Sumitomo Metal Inds Ltd	Mar	6,646	173	8,582	1,903	Osaka, Japan	steel	29
111 Sanwa Bank Ltd ⁶	Mar	6,624	154	76,629	4,739	Tokyo, Japan	banking	17
112 British Steel Corp	Mar	6,584	-964	6,869	none ⁵	London, UK	steel	112
113 Sumitomo Life Insurance Co	Mar	6,551	955	14,979	none ⁵	Osaka, Japan	insurance	9
114 SNCF	Dec	6,447	-937	15,754	none ⁵	Paris, France	transportation	252
115 Rio Tinto-Zinc Corp Plc	Dec	6,443	194	10,793	1,952	London, UK	metals	70
116 George Weston Ltd	Dec	6,347	53	1,686	389	Toronto, Canada	food distribution	60
117 Mitsubishi Electric Corp	Mar	6,335	152	5,407	2,670	Tokyo, Japan	elec equipment	66
118 Générale Occidentale	Mar	6,169	41	1,390	228	Paris, France	multicompany	30
119 Grand Metropolitan Plc	Sept	6,091	257	5,259	3,231	London, UK	multicompany	129
120 Bank of Nova Scotia	Oct	6,077	222	43,748	1,333	Halifax, Canada	banking	26
121 Schlumberger Ltd	Dec	6,025	1,348	7,846	13,623	Netherlands Antilles	oilfield services	75
122 Schneider SA	Dec	5,976	-54	10,760	35	Paris, France	industrial equip	109
123 Samsung Group	Dec	5,967	28	4,641	none ⁵	Seoul, Korea	multicompany	97
124 South African Transport Services	Mar	5,910	-62	11,549	none ⁵	Johannesburg, S Af	transportation	275
125 Ruhrgas	Dec	5,800P	120P	2,750P	none ⁵	Essen, Germany	energy	3

¹Revenue is for "group" or consolidated and excludes excise taxes and duties. ²As of Dec. 31, 1982. ³Combined market value. ⁴Figures for year ended Dec. 31, 1981. ⁵Government, privately owned or mutual. ⁶Not fully consolidated. ⁷Based on current cost accounting. NA: Not available. E: Estimated. P: Preliminary. General notes: Revenue and net income are converted at an average rate of exchange for the fiscal year; assets are converted at a rate of exchange at fiscal year-end. Figures for 1982 were used for those March fiscal-year companies for which 1983 results were not available at press time.

1983: Strong start for most businesses



B.A.T INDUSTRIES

Patrick Sheehy, Chairman, told the Annual General Meeting:

* I foresee that profit attributable to B.A.T Industries shareholders for 1983 will at least be maintained, if exchange rates remain broadly at the same levels. Our aim will be to continue increasing dividends to shareholders at a rate exceeding UK inflation.

* There are signs that world economies are beginning to recover from the recession. This process will obviously take some time and it is too early to be certain that the encouraging signs so far detected are the start of a sustainable trend.

* The tobacco business continues to be a strong generator of profit and cash flow. Performance around the world will be variable and pressure on volumes will continue. Price increases and excise duties have not only reduced volumes but have stimulated consumers in certain markets to switch to cheaper and less

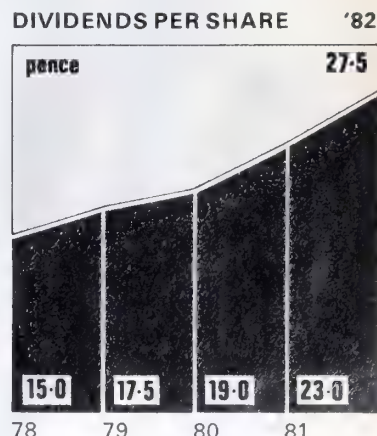
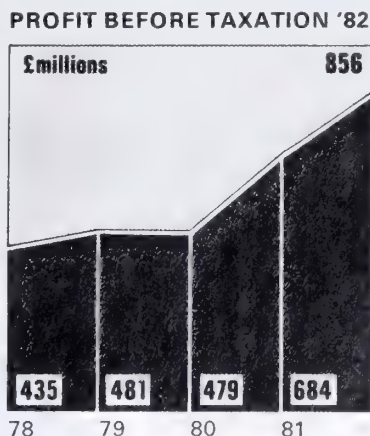
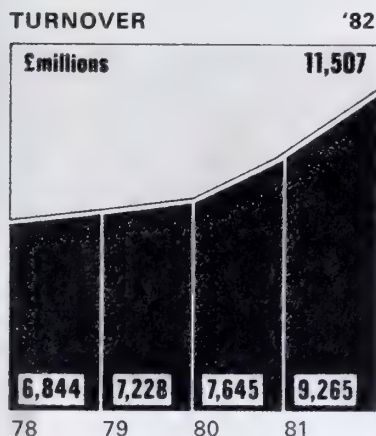


profitable brands. On balance, I expect to see some reduction in our profits overall from tobacco while economies are struggling to recover.

* Retailing in the United States is recovering well and profits for the first four months are well ahead... There has been a substantial improvement in profits from our UK retailing.

* In Wiggins Teape volume is up on last year as also are profits... In the United States, the increase in volume, sales and profits of Appleton Papers continues.

* Cosmetics is anticipated to show good gains in trading profit... Home Improvements in Germany is benefiting from increased demand from the building industry and the profit increase should be very satisfactory... The significant contribution from our associated companies is expected to grow.



The figures and graphs above have been taken from the full Report and Accounts for 1982, copies of which, together with the Chairman's Speech, are available from the Secretary:

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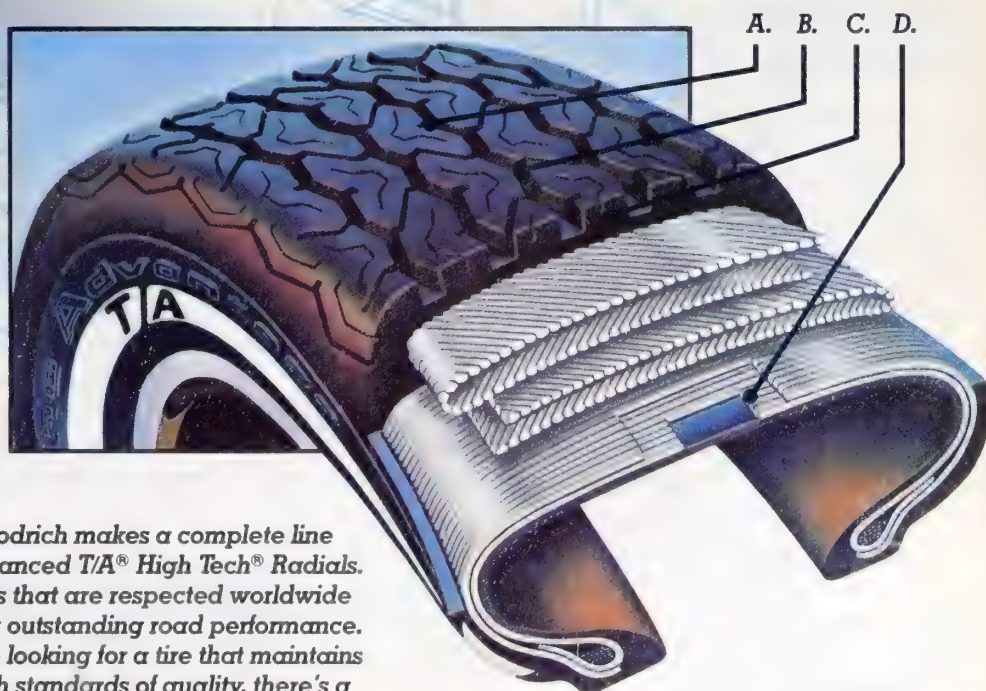
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- C. Dual compound tread optimizes tire life and mileage.*
- D. Rayon carcass provides a smooth, comfortable ride.*



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In addition to the Steel Group, we've organized a Manufactured Products Group, responsible for the manufacture and sale of wire rope, industrial fasteners, welded steel-plate products, oil country goods, corrugated culvert pipe and highway drainage products...

...a Natural Resources Group, responsible for the production and sale of products such as coal and stone...

...and a Marine Construction Group, responsible for the construction and servicing of naval and merchant vessels and offshore drilling and production equipment, and the manufacture of industrial products.

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Bethlehem



Bethlehem Steel Corporation
Bethlehem, PA 18016

Taxing Matters

States in desperate need of revenues have long gone after individuals and businesses. Now they are out to get Uncle Sam and the Queen of England.

The shifty 50

By Laura Saunders

FOR YEARS now the big battle in state taxes has been over the infamous unitary method of taxation. States use it to tax the profits a company makes outside its borders, based on the percentage of payroll, assets or sales actually in the state.

Now, however, with 13 states trying to extend that principle abroad, the battle is becoming more than a domestic squabble. The European Economic Community has submitted two formal protests in the last four years, and in May a British delegation was in Washington to lobby for a bill banning the practice. Says Harry Walsh, economic counselor at the British embassy, "It's hard to get the EEC countries to agree on anything, but they were unanimous on this." Not surprising, considering the stakes. For several years California claimed that 50% of Royal Dutch/Shell's worldwide income was taxable in that state.

The matter may come to a head soon, when the Supreme Court decides *Container Corp. v. Franchise Tax Board*. In that case, the Court could deal with the constitutionality of unitary taxes for overseas companies. But it's clear that if this decision goes against the foreign interests, the EEC will not simply walk away.

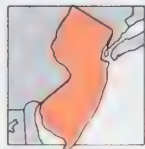
"Just think," muses Walsh, "what could happen if Third World countries got hold of a notion like this. . . ."

California

So you always thought that the Supreme Court had jurisdiction over the whole country. The folks in California don't agree. Last

year the Court ruled in two separate decisions that states can't tax corporate income on dividends, interest and capital gains earned in other states (*FORBES*, Aug. 30, 1982). That was a real blow to California, which has been doing just that. The state stood to lose \$500 million, some 20% of its corporate tax revenues.

The ever resourceful California Franchise Tax Board, however, has simply chosen to ignore the Supreme Court. Instead it's relying on a California Supreme Court decision that—surprise—went in the state's favor. For companies that want to fight the issue, it may be a long haul. "California doesn't like to cave in," says one Big Eight accountant. "They're willing to go the whole way once they start something."



New Jersey

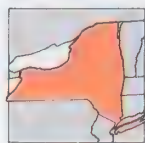
When the federal government decides to ease taxes, the states can frequently lose revenues.

Their tax laws are often written in a way that means changes in the federal tax code are reflected in the state tax code. So the goal in many states right now is to decouple their tax codes from Uncle Sam's. A current problem: the 401(K) plan, a new, deferred compensation program set up by Congress. It allows workers to defer some of their pay into tax-exempt trusts, paying taxes only when the money is drawn out.

New Jersey wants to tax this deferred income in the year it is earned. But accountants shudder at the reporting nightmare that this decoupling—also adopted by Alabama and Pennsylvania—is causing. "You have to refigure

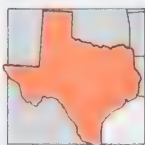
the state withholding completely just for this one item, using separate tax tables and everything," says Jeff Gotlinger of Arthur Young.

But when have bureaucrats worried about loading more paperwork onto their constituents?



New York

Video game addicts in the Empire State may notice an additional bit of electronic paraphernalia hooked to the sides of their Space Invader machines in the next couple of years—and it won't be a new way to zip into hyperspace. The New York State Legislature is considering a bill to levy a 25% tax on video games. They would have to be equipped with meters to make sure no revenue would be "overlooked."



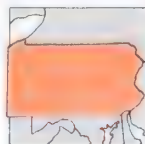
Texas

It shouldn't be any surprise that states want to tax anything that falls within their borders.

But what happens if an importer's goods are just sitting inside a state for a while, en route to another state?

That was the issue in the recent Supreme Court case, *Xerox v. Harris County, Tex. et al.* Xerox Corp. had stored some copiers in Houston. The machines had been manufactured in Mexico and were awaiting shipment to Latin America, sitting in a U.S. Customs bonded warehouse to ensure their duty-free status. About five years ago Harris County slapped a personal property tax on them, and Xerox cried foul. The copiers were no more Texas property, it claimed, than they would have been had they passed overhead in an airplane.

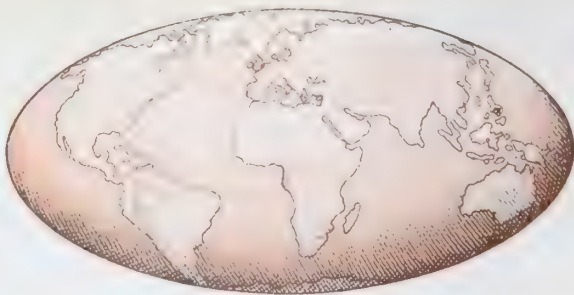
The High Court decided in Xerox's favor, saving the company several hundred thousand dollars. And the implications of the case are not just for Texas. "This appears to mean that you can't levy a property tax on imported goods while in transit, no matter what their destination, if they are stored in a Customs bonded warehouse," says Steve Friedlander, manager of group taxes for Xerox.



Pennsylvania

Raising the sales tax is one of the quickest ways for a state legislature to get in trouble with the voters. People notice income taxes only once a year, but they smart under sales taxes every time





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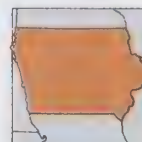
**Interest rate
hopes bring**

Taxing Matters

they go to the store.

So Pennsylvania has decided to leave the sales tax rate alone and just try to get its hands on the money a little faster. The plan slated to come before the state legislature would force retailers to cough up their collected sales taxes within 20 days after they are paid. Now the money is due in 45 days.

Well, it was probably inevitable that the boys in the statehouses would discover the magic of float.

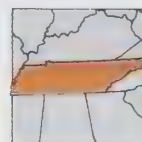


Iowa

When the Supreme Court struck down taxes on newspapers' ink and paper in March,

the State of Iowa, which had such a tax, moved with lightning speed. By May it had passed a retroactive law that banned any refunds of the already paid tax, which might have come to \$12 million.

Then, as newspaper publishers fumed, Iowa rubbed salt in the wound. Most laws do not require formal publication. But Iowa instructed the major newspaper company in the state to carry a statement regarding the law and paid it only nominal legal-notice ad rates. "It was," says an official at the *Des Moines Register*, "their idea of a joke."



Tennessee

Tennessee's excise tax on bank earnings used to exempt income from its own bonds. But it

did not exempt income from federal obligations. And *that* is against the law, said the Supreme Court a few months ago.

You wouldn't think such a decision could cause big problems, but it is having a ripple effect that threatens a number of taxes on banks and corporations elsewhere. What's more, there's the issue of severability: Can the states simply issue refunds that cover the newly offending part of the tax? Or must they pay refunds of the entire tax for the years it was in effect?

"In Ohio, a lot of refunds have been filed that ask for the whole tax back," says William McArthur of Coopers & Lybrand. Clearly anxious to bury the issue, Ohio has moved quickly to refund the part of the tax paid on federal obligations. But that likely won't be the end of this dispute.

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Numbers Game

A few years ago inflation accounting was a hot topic. Now nobody seems to be interested. That's a mistake.

Out of sight, out of mind?

By Janet Bamford

YOU KNOW THE OLD STORY: The farmer's wife was nagging him about the leaky roof. "I can't fix it now," he said. "It's raining."

"Then why don't you patch it when the weather is nice?" asked his wife.

"It doesn't leak then."

All this comes to mind when you hear members of the financial community talking about inflation accounting. Just a few years ago nearly everyone was clamoring for inflation-adjusted corporate earnings. With in-

flation running in double digits year after year, the need was clear. So in 1979 the FASB instituted Statement 33, and, for a five-year trial, constant dollar and current cost accounting was required for big companies.

Now the experiment has been under way three years, inflation has slowed and nobody seems interested anymore. In fact, Wall Street has never really paid much attention to the numbers at all. Arthur Young recently surveyed financial analysts to see whether they use the information, which, although unaudited, is includ-

ed in large companies' annual reports. Only about half the analysts reported that they use the data at all. And cynics say even that estimate is inflated by analysts embarrassed to admit they are ignoring any corporate data.

"Inflation accounting was a hot topic after World War I, then again after World War II, then in the late Sixties," says Allen Seed, a consultant with Arthur D. Little. "Interest heats up when inflation heats up and dies off when inflation does." So, with interest waning, the FASB is considering changing, or even abolishing, the requirements for reporting inflation's effect on earnings.

No doubt there are technical problems with both of the FASB's methods for showing inflation's effect on companies. But if the Board backs down on its move toward inflation accounting, that will be a big mistake. Any system that measures inflation reasonably well is closer to reality than one that ignores inflation altogether. One scary statistic: In 1981, when earnings for 29 of the Dow 30 were adjusted using the current cost method, total operating earnings dropped from \$31 billion to \$13.8 billion.

But those were the bad old days, right? You would think that 1982's adjusted figures would nearly match the unadjusted numbers. Unfortunately, that's not the way it works. The accompanying table shows how inflation-adjusted figures for fifteen of America's biggest firms still differ substantially from their reported earnings. At AT&T, for example, last year's income from operations of \$6.9 billion dropped to \$50 million when adjusted for general inflation.

How is this possible? Simple. Say your company bought a widget in 1978 for \$1,000. Depreciating it by \$100 a year, it's now booked at \$500. But inflation has driven up its real value to \$2,000. To depreciate it properly, you might want to write off much more than \$100 next year. Clearly, one year of low inflation doesn't bring the widget's depreciation into line with reality. "The assets that were brought into the depreciation calculations last year," says Ernst & Whinney partner Norman Strauss, "replace those acquired in 1972—but the 1973 assets are still in there at the old cost. Only after years of zero inflation would it catch up."

Maybe if a miracle happens, and the U.S. can keep inflation under control for a decade or so, accountants can drop their efforts to deal with it. But short of that unlikely event, it's probably best to repair the roof while the sun is shining. ■

The morning after

So you thought that inflation hardly affected earnings in 1982? Wrong. Take a look at how the earnings of the 15 companies with the largest profits in the U.S. fared when adjusted for inflation. These

results show both a constant dollar figure, which includes changes in the Consumer Price Index, and a current cost figure, which reflects the companies' replacement costs for specific assets.

Company	1982 net earnings (in millions)		
	as reported	constant dollars	current cost
American Tel & Tel	\$6,992*	\$ 50	\$1,418
IBM	4,409	NA	4,177
Exxon	4,186*	NA	-296
Standard Oil Ohio	1,879	1,448	1,356
Standard Oil Ind	1,826	1,214	990
General Electric	1,817	1,066	1,179
Atlantic Richfield	1,676*	915	789
Shell Oil	1,605*	730	424
Mobil	1,380	-71	-50
Standard Oil Calif	1,377	313	-668
Texaco	1,281	33	-905
Eastman Kodak	1,162	983	1,022
General Motors	963	112	207
Gulf Oil	900	NA	-477
Du Pont	894*	413	554

NA: not available. *Income from continuing operations



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Faces Behind The Figures

Edited by John R. Dorfman

Robots for lease

As the man many consider the father of the industrial robot, George Devol has reason to be rankled. His early patents in the 1950s gave the U.S. a clear head start in robot technology

Robotics pioneer George Devol

"I've found a way to stymie the bean counters."



and established Unimation Corp. as the fledgling industry's leader. Then he sadly watched as Japan took over world leadership in the field.

The ruddy-faced, white-haired inventor, who holds more than 40 patents, puts the blame on American management. "They're bean counters," he grouches. "But someone needs to have vision."

Devol, now 71 and a robotics consultant, has nominated himself. If American management is too shy to invest in the factory of the future, he says, maybe it will lease one—from Devol. He plans to design and build the most automated plant in the world, stuff it full of robots and other state-of-the-art machinery and rent it out to manufacturers.

The over-300,000-square-foot plant Devol envisions could produce a wide variety of products with minimal changes in tooling. It would be run by computers with little more than a skeleton maintenance crew and a

handful of supervisors. Around-the-clock it would churn out packaged products from raw materials at a cost at least 50% lower, he says, than that of an average labor-intensive facility.

Devol would develop the software to link the robots and equipment together. Not counting software, he says, more than 90% of the machinery needed is available now. Such a plant, he says, could be up and running in three years.

Devol says he is currently negotiating with a \$3 billion-plus (sales) corporation, which he will not name, to finance half of the \$200 million venture; much of the remainder is to be

raised through a speculative stock offering. A dozen engineers and other operations managers already have been recruited.

A pipe dream? Don't underestimate him. In 1932, at the age of 20 and having shunned a university education, Devol founded United Ciniphone to develop sound-recording equipment for movies—a move that led to patents on photoelectric devices for garage door openers and contact switches. He later organized General Electronic Industries, which made radar countermeasure systems for the Navy. Since developing the robotics patents that formed the basis for Unimation, Devol has worked as an adviser to the firm, now a Westinghouse subsidiary. He also runs Florida-based Devol Research Associates, his own consulting firm.

"I've finally found a way to stymie the bean counter," he says. And he just may have.—John A. Byrne

The boss' bourbon

After Prohibition, Missouri political boss Tom Pendergast used to have a sideline in distributing bourbon. His "Old 1889" was, not surprisingly, a strong local brand.

It still is. But today Old 1889, along with some 200 other local and private brands of bourbon, is made by Heaven Hill Distilleries, a thriving family-owned company (estimated sales: \$85 million) in Bardstown, Ky. Day-to-day control of the company is in the hands of 39-year-old Max Shapira, the Harvard M.B.A. son of one of the five brothers who founded the firm right



Max Shapira of Heaven Hill Distilleries

The secret recipe isn't in the grains, it's in distribution.

Faces

Behind the Figures

after Prohibition ended.

Shapira says the company is growing at a "double-digit" rate. That is something to drink to in the bourbon business these days. Total sales of Kentucky bourbon in the last few years have sloshed between 22 million and 24 million cases, down from a peak of around 27 million in 1972. Any growth, then, is cause for celebration. And Heaven Hill's leading brand, Evan Williams—which Shapira is trying to position as a national brand—is growing at a 20% rate.

Heaven Hill uses more malt (12% to 14%) than most bourbon makers, Shapira says, and it distills year-round in all-copper equipment. But what really sets Heaven Hill apart, he says, is its distribution system. Heaven Hill sells whiskey in bulk to some 200 distributors nationwide, then bottles and ages it for them before shipping. The distributors put up an average of about \$1 million apiece, in effect financing Shapira's inventories for him. The distributors, in turn, can call many of the shots. They determine how long the bourbon will be aged and what proof it will be, and they have a significant say in how it will be marketed. Some distributors concentrate on radio, others on newspaper or point-of-sale advertising.

The effect of all this is that the distributors have a financial stake in Heaven Hill's success. And they have an intimate knowledge of market conditions in their local areas.

Right now Evan Williams accounts for close to 40% of Heaven Hill's bourbon sales. The Heaven Hill brand, strong in Kentucky and nearby, chips in 35% or more. The rest is small and private brands for such customers as Safeway (Old Calhoun), Harvard (Harvard Gentlemen), even the Union League Club of Chicago (Members' Reserve). "The key to this business," says Shapira, "is knowing what's going on, not nationwide, but in individual states and even cities."—J.R.D.

General shrewdness

"The battle of the sexes," claims Wendy Rue, founder and president of the National Association for Female Executives (NAFE), "makes the Civil

War look like child's play." Outfitted in chunky jewelry and a casual tunic-style dress as she sips a vodka and soda, platinum blonde Rue seems an unlikely general. But in the last 11 years she has managed to round up an army of female executives, currently running 84,000 strong.

For \$29 a year Rue supplies new NAFE members with weapons to push their careers along and earn big dollars—the ultimate liberator, in Rue's view. NAFE kit bags include an

despite her frank manner refuses to divulge her age or open her books, is making much more from NAFE than she did years ago running clothing stores or working as an executive recruiter. Though she says she loses money on each initial \$29 membership fee (after covering the costs of bringing in new members and giving network directors a \$5 incentive bonus for new networkers who join NAFE), Rue has struck distributorship and endorsement deals with 11



Wendy Rue, head of the National Association for Female Executives
What are men reading now behind their magazines?

aptitude test to uncover business potential, a credit handbook and a résumé critique service. Members can also get personal loans, rental car discounts, insurance and other goods and services.

But the hottest item in Rue's package is NAFE's answer to the old boy network. Members form information-sharing groups—or "networks"—that may concentrate on particular sectors such as communications or finance, or pursue a variety of topics.

NAFE's second most popular benefit, *Executive Female* magazine, is designed to hone business skills. Last month's issue, among other things, explained "decision tree" analysis and advised women on the right stuff to carry as props (Porsche sunglasses, Bottega Veneta attaché, Tiffany cigarette case—even for nonsmokers). "*Executive Female* has become popular with men, too," Rue says. "They read it hidden behind *Dun's* or *FORBES* now, the way they used to read girly magazines on the subway."

Feminism aside, the NAFE philosophy—and NAFE itself—remains firmly rooted in capitalism. Rue, who

companies. Companies like Security Pacific, American Express Co., Inc. magazine and National Benefit Life helped Rue bring in over \$4 million in revenues last year. With only a skeleton staff and few expenses, Rue gets to keep a lot of that.—Ellyn Spragins

A dose of class

When Henry (Hank) Johnson became president of Spiegel, Inc. six years ago, he immediately moved the headquarters of the nation's fourth-largest catalog outfit (\$394 million 1982 sales) from a gritty Chicago industrial site to suburban Oak Brook. Johnson, 64, picked offices next to an exclusive shopping mall, thereby physically relocating Spiegel just where he intended to reposition it in the market, right alongside Saks Fifth Avenue, Lord & Taylor and Neiman-Marcus.

Spiegel was then losing many of its low-income, price-conscious customers to discounters like K mart. Profits were being stifled by credit policies that gave Spiegel shoppers as long as 20 months to pay. Johnson, fresh



Spiegel Inc. President Henry (Hank) Johnson

Gone are the polyester pantsuits and the daytime TV giveaways.

from streamlining the apparel catalog at Avon Products, Inc., and having put in 25 years with Alden's catalog before that, set about to revamp stodgy Spiegel completely. Out went the polyester pantsuits and the giveaways on daytime TV game shows. Johnson turned Spiegel into a glossy high-fashion catalog. Its 500-page books, published twice a year, are crammed with \$500 home computers, and clothing and home furnishings by designers like Liz Claiborne, Pierre Cardin and Laura Ashley. Spiegel has also begun publishing 12 specialty catalogs a year, featuring such items as expensive lingerie, gourmet cookware and furs.

His strategy appears to be successful. Earnings increased 49% last year, to \$5.2 million. Sales for the first quarter are up 22% from last year.

The catalog field is crowded, to be sure: Mail-order sales have grown twice as fast as retail sales in the past four years. Still, Johnson, a tall and lanky former Air Force bomber pilot, thinks Spiegel's new image and success will be durable.

What about computer-based merchandising? For all the talk, Johnson doesn't expect it to be a significant source of orders in this decade.

Spiegel's relatively new owner, West German merchandiser Otto-Versand, should be pleased with the outlook. The catalog firm, Europe's second largest, bought Spiegel from Beneficial Corp. early last year for \$49 million. Beneficial had thought so little of Spiegel's prospects that it had considered liquidating the company. Now Johnson expects 1983 sales to

hit \$500 million and move up rapidly from there. Says Johnson, "I won't retire until Spiegel is a billion-dollar company." His "conservative" target date? 1988.—Christine Donahue

Merger boutique

Gilbert Mintz and Bernard Goldstein are partners in a boutique. But this boutique—Fort Lee, N.J.-based Broadview Associates—sells companies, not miniskirts or designer jeans. Specifically, it sells computer service companies. Since 1979 Broadview has orchestrated some 100 deals—about

30% of the mergers and acquisitions in that industry during that time.

It's just the place to be, Goldstein points out. "Despite the public's perception to the contrary," he says, "the number of mergers and acquisitions of all kinds nationwide is declining." In 1982 there were only 2,346 (which Goldstein calls "the sex of business"), compared with 6,107 in 1969.

Meanwhile, and running counter to the broad trend, the number of mergers and acquisitions in the computer services industry has risen from about 20 in 1969 to 138 last year. The money involved, to be sure, is relatively small potatoes. A typical computer services deal ranges from \$1 million to \$3 million, while the average value of the 2,346 deals of all kinds last year was \$23 million. But that's okay with Mintz and Goldstein. Small numbers, they reason, mean less competition from investment bankers.

The numbers make sense, considering the age of the computer services industry. The typical seller in a computer services deal is a young entrepreneur with a successful startup company. He's not selling so that he can retire to Florida. Rather, the entrepreneur wants a rich, established acquirer to help him take his company into bigger markets.

Mintz used to be head of ADP's acquisition program. Goldstein was an entrepreneur who started up and sold two computer services firms. While Goldstein is serious and deliberate, Mintz is colorful and energetic, given to making quick phone calls from the other end of the couch while



Broadview Associates' Bernard Goldstein and Gilbert Mintz
Mergers are "the sex of business."

Faces Behind the Figures

Goldstein follows up one of Mintz' cavalier remarks with a more considered response.

Mintz originally founded Broadview as a general merger broker but quickly learned the value of specializing. "I had a manufacturer of steel pails, a hotel and a maker of extruded aluminum parts for the aerospace industry [to sell]," he recalls. "Who the hell knows who to sell that to? I decided I should specialize in the industry I knew."—**Laura Rohmann**

Waste warrior

After four years on Capitol Hill fighting for safe waste disposal, young, energetic toxicologist Richard Fortuna, 31, has become executive director of a year-old group called the Hazardous Waste Treatment Council.

The 12 companies that now back the group and provide its \$200,000 budget aren't household names. Perhaps best known is SCA Chemical Services, a subsidiary of \$400 million (sales) SCA Services. Other members are outfits like ENESO, Inc., CECOS International and Stablex. What they have in common is an interest in methods of waste disposal other than landfilling. Alternative methods include reuse, recycling, conversion to energy, solidification, incineration and pretreatment.

Fortuna, former toxicologist to the House Committee on Energy & Commerce, is committed to these alternative methods. But, he notes, they're not without their own problems. For example, he says, any company that "hides" behind the shield of energy regeneration can mix hazardous wastes with fuel oil and burn them without any emission controls. "An insult to the environment," he says.

Another Fortuna mission is to get the Environmental Protection Administration to expand its official list of hazardous wastes. Most forms of dioxin, for example, aren't on the list and therefore aren't subject to EPA waste disposal regulations. While with the House, Fortuna submitted a list of more than 85 toxic substances he thought should be added to the roster. Says Fortuna: "Since 1980 about 250 chemicals have been delisted. Do you know how many new ones



Toxicologist Richard Fortuna
Is dioxin a hazardous waste?

have been added? None."

The Treatment Council's main effort will be to get a bigger bite of the hazardous waste business. Right now only 20% of the estimated 275 metric tons of hazardous wastes produced in the U.S. each year is treated by alternative methods. The rest is still dumped in landfills.—**Jayne A. Pearl**

Junk master

"Is three hours really enough?" asks Dr. Roger Breslow, a 42-year-old internist from Utica, N.Y., in a voice he might reserve for a guarded prognosis. Breslow is reading a line of copy—the

teaser—on an otherwise sober business envelope. It is one of many such envelopes, unsolicited and unopened, piled high on an examination table in his office. He pauses, then quips, "Maybe not, but I don't have time to find out." With a practiced hand, he files it in the trash along with the rest of the pile.

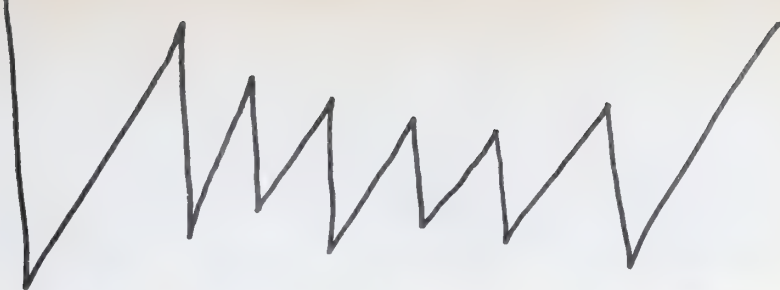
Catchy slogans, glitzy envelopes, even pop-out displays don't capture the interest of this self-proclaimed junk mail expert. No wonder. He receives thousands of pieces of it each year, largely drug advertisements and freebie—ad-supported—medical magazines. Last year Dr. Breslow launched a little research of his own. He kept and crated every piece of junk mail he received. By Dec. 31 the total was 502.75 pounds. Hoffmann-La Roche, a name Breslow shudders to mention, kept the postman busiest, with nearly two mailings each week.

The doctor, of course, didn't read all this junk mail. He rarely even opens an envelope. When he prescribes medication, he says, he does so on the basis of experts' recommendations, lectures and scientific studies that he reads about in medical journals.

But direct-mail advertisers, take heart. Even a busy man like Dr. Breslow can be coaxed into lifting the flap, especially if a gift is enclosed. He still has the tapes of old radio routines by Burns and Allen and Abbott and Costello that Ayerst sent him to plug a new combination drug. And his son plays with the train set packaged with an ad for . . . well, he can't remember the name of the drug, but then he didn't prescribe Ayerst's new product to patients, either.—**Jill Andresky**



Self-nominated junk mail watcher Dr. Roger Breslow
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The optical microscope has changed little in almost 400 years. Now IRIS is putting computer power behind the lens.

Technology

Edited by Stephen Kindel

Focusing in

By Kathleen K. Wiegner

ENTREPRENEURS ARE opportunists," laughs Fred Deindoefer, president of International Remote Imaging Systems, Inc. That's been Deindoefer's mind-set ever since he bought a paper route at age 11. By the time he was 12, he had increased his Sunday subscriptions sixfold, from 50 to 300. Now 53, Deindoefer is determined to make yet another small business grow fast.

The business: automating urinalysis, one of three standard profile tests every hospital patient is given. The other two, blood chemistry and blood cell count, have long been automated, but urinalysis is still done manually by a technician who smears a specimen on a glass slide and examines it under a microscope. Urinalysis is, in fact, the highest-volume manual test—an estimated 90 million a year—for which no automated instrumentation has been available. The reason for that is the complexity of urine. It contains bacteria, yeast, red and white blood cells, skin cells and many other crystals and particles. Blood is a simple substance in comparison. The problem is that urine's complexity makes it useful for diagnosing diseases but makes it tough to analyze automatically.

Enter IRIS. The Chatsworth, Calif.-based company is on the verge of Food & Drug Administration clearance for a machine that ends peering through a microscope. IRIS' technology draws on image analysis, fluid dynamics, electro-optics and microprocessors, all coordinated into an automated intelligent microscope (AIM). AIM takes rapid-fire, stop-action photographs of urine sandwiched between two planes of flowing liquid (which act like a glass slide) and then ana-

lyzes them by computer. The technique also is used by the military; in much the same way, the cruise missile uses image analysis to "read" the topography over which it travels. In an IRIS urinalysis, all this takes an average of three to four minutes, half the time of a manual test.

Deindoefer describes AIM as a classic case of a need seeking a solution. So, it seems, was he. A chemical

doerfer sold it to West Germany's Boehringer Ingelheim for \$7 million.

He stayed at IDT for a while, but already the idea that was to become IRIS was beginning to form. In 1979 he put some of his money into a private development group to begin looking at the question of automating the microscope and then left IDT in 1980. IRIS was officially incorporated in 1979 with \$130,000 from its founders, \$400,000 in private funds, and a team of scientists including Sherman DeForest, an expert in image analysis, and Gunner Bolz, a clinical chemist from IDT. DeForest and Bolz, both of whom have since left IRIS (DeForest is still on the board), share the inventorship of the slideless microscope part of AIM, although all rights to exploit the patent reside with the company.

Deindoefer and his team first thought of simply putting a computer at the end of the microscope. But,



President Fred Deindoefer with IRIS urinalysis work station

The truly revolutionary things come from smaller companies.

engineer with a Ph.D. from the University of Pennsylvania, Deindoefer worked first for giant American Hospital Supply Corp., where he helped establish a successful proprietary intravenous solutions business. In 1974 he left American Hospital to found his own company, International Diagnostic Technology. IDT developed the first commercial fluorescent system for analyzing hormones, drugs and antibodies in the body. But IDT ran short of money in 1978, and Dein-

explains Deindoefer, the time it took to move glass slides around in front of a high-speed computer just didn't add up. If you could get faster presentation of the slide, then the computer's speed would make sense. That led to the idea of the flowing liquids—a slideless microscope. Then ways had to be found to align the urine samples in the liquid precisely and to compress the digitized data from the pictures—important because this allowed AIM to fit on a table with

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Technology

microprocessors rather than with large, expensive minicomputers.

Deindoerfer's initial goal is to place his machine in 20% of the largest of the 3,000 clinical laboratories in the U.S. within five years. If he succeeds,

sales of the machine, priced between \$75,000 and \$80,000, could reach over \$50 million by then. The technology also has applications other than in urinalysis. In fact, Deindoerfer says he may go into blood analysis technology, despite the stiff competition. He also recently organized a 70%-owned subsidiary, Auto/Recognition Systems, to exploit high-speed image processing for the semiconductor industry. Semiconductor fabrication

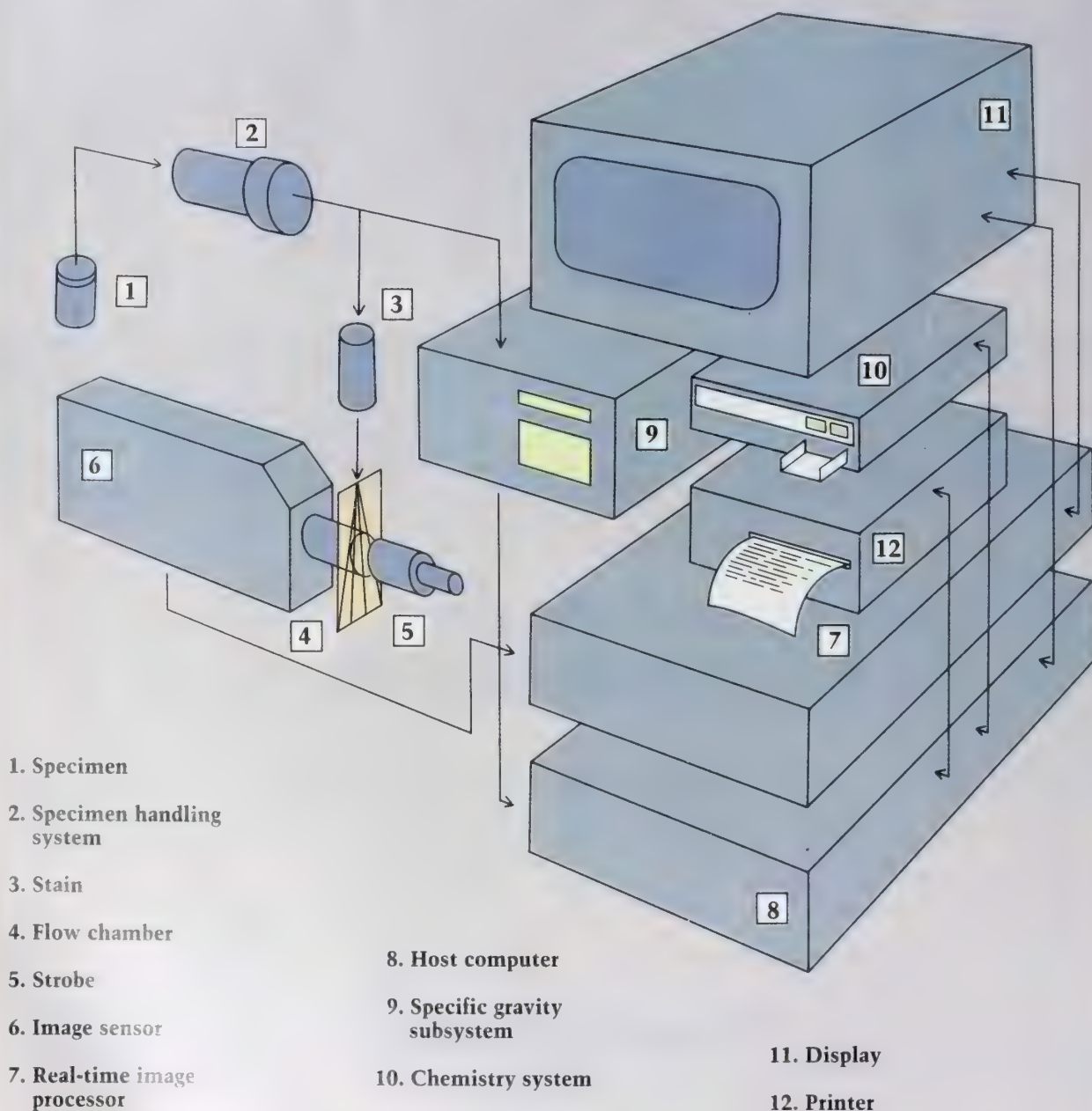
and assembly is one of the most intensive industrial uses of the standard microscope today. Potentially the automated intelligent microscope could be used in any procedure relying on traditional microscopes.

If IRIS, as expected, wins FDA approval for AIM, it could quickly join the ranks of other once-small companies that have pioneered diagnostic automation and prospered. Those include Technicon Corp. (now owned

Time is money

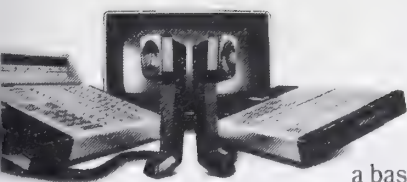
Cutting test time in half saves labs \$1 a test with an IRIS work station. The electro-optical system (5)(6) shoots at 20 frames a second, vs. 6 for the fastest

35mm camera. The image processor (7) sorts through specimen frames at 6 feet a second. Editing can be done quickly by touching the screen (11).





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Technology

by Revlon) in blood chemistry testing, privately held Coulter Electronics in blood counts and SmithKline Beckman's Geometric Data in blood-cell differentiation. IRIS could also go the way of Deindoefer's previous company, IDT, and sell out to a larger company. On that Deindoefer is understandably philosophical, and more than a little proud. "Most of the instrumentation used in the industry today stems from entrepreneurs rather than big business," he says. "The truly revolutionary things tend to come from smaller companies. In a way we are the research and development of bigger companies."

An affair of the heart

Hear disease is America's leading killer and heart attacks claim about 600,000 lives each year, so it's probably no surprise that technology to combat them ranks high on Wall Street.

Take tiny OCG Technology, a New York company that claims to have the most advanced technology available for spotting potential heart attack victims. Wall Street believes: In the last year, the stock was bid up to \$15, from less than \$8, before easing down to the neighborhood of \$10 recently. With 4.8 million shares outstanding, that's a market value of \$48 million. But profits don't explain the stock's rise; there aren't any. In the 12 months ending Mar. 31, 1983, OCG lost \$703,000 on \$1.2 million in revenues—revenues that came not from the sale of its heart disease detection device, called a Cardiointegrator, but from its Masterdisk subsidiary, which cuts master records for the likes of the Rolling Stones and The Police.

A little doodah, as the latter group might say. It becomes a big hoo-hah, though, as you sort through the Cardiointegrator's history. The more you know, the more you wonder.

OCG originally went public, way back in 1970, on the basis of some heart research that reformatted standard electrocardiogram (EKG) output. That research, and the process that interpreted the results, received its first patent in 1970. The machine transforms the jagged EKG lines on a paper tape into a wave form (see diagram). That wave form is superimposed over a template derived from studies of normal subjects. If the wave

form lies outside the template, an abnormality may exist.

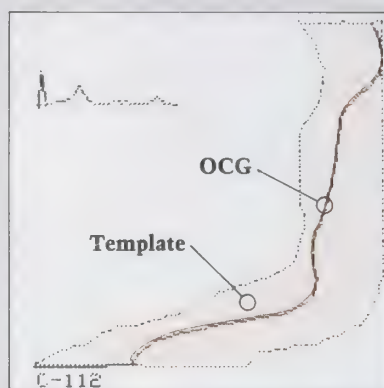
That was fine in theory, but it was too tedious and difficult to produce the wave form, then called an omniscardiogram, for it to take off. For one thing, back in 1970 you needed a huge computer to do the wave-form analysis. That was too expensive. For another, the results of the company's experiments, though they seemed to be conclusive, were roundly attacked by doctors because they rested on too few cases or allegedly failed to take into account such factors as age and sex. In fact, some medical authorities

cardiologists that the technology was worth a flier, so he bailed out the company, eventually taking over the reins from J.R. Levitt, the engineer who received the original patent.

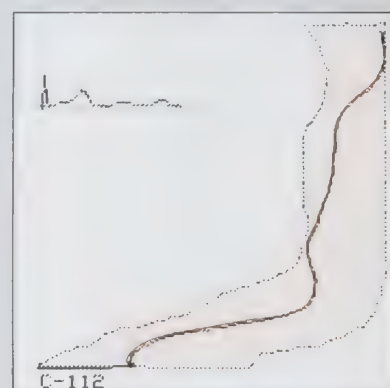
Enter also the marvelous microprocessor, which can perform all the complexity of the omniscardiogram's wave-form analysis at greater speed, with greater accuracy and at far lower cost than leasing an IBM 1130 computer. Last year the new, improved omniscardiogram was rechristened the Cardiointegrator, a machine that sold for \$10,500 and could be placed in physicians' offices, and the company

The EKG is normal . . .

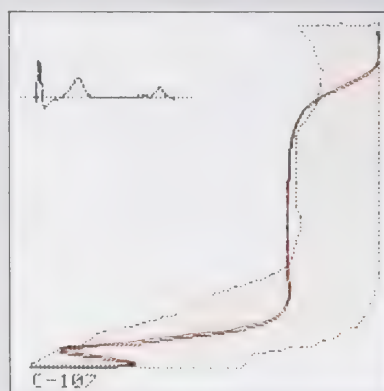
but is the patient normal? OCG claims half of the patients with normal EKGs still might have heart problems. If four out of the ten readings taken are abnormal (wave form outside the template) the reading is abnormal.



Normal sample 1



Normal sample 2



Abnormal sample 1



Abnormal sample 2

Source: OCG Technology

said, the much ballyhooed wave envelope did not provide much more information than the EKG itself.

By 1973 OCG was in serious financial trouble. Its stock, which opened in March 1970 at \$7, had plunged to 75 cents. Enter Edward C. Levine, the company's current president, and Masterdisk. Levine, a tax attorney, decided after consulting with several

geared up for production. According to Levine, his plant in Farmingdale, N.Y. can produce 700 to 900 machines a month.

Yet only 125 machines have been produced, and 43 of those are still in the hands of distributors, half of which are in medical settings. The doctors, it seems, are still skeptical. The key flaw some of them see in

OCG's reasoning is that the Cardioin-tegraph's results all come from the output of a standard EKG machine. If that machine doesn't provide sufficient information in its original form, it's hardly likely much else will be gleaned from more complicated analyses.

Unless OCG can convince the medical community that the Cardioin-tegraph is a great advance over what the standard EKG machine provides, the company would seem to face an uphill credibility battle. That, however, doesn't seem to bother the Wall Street enthusiasts. When The Street be-lieves, it *believes*.—Paul Bornstein

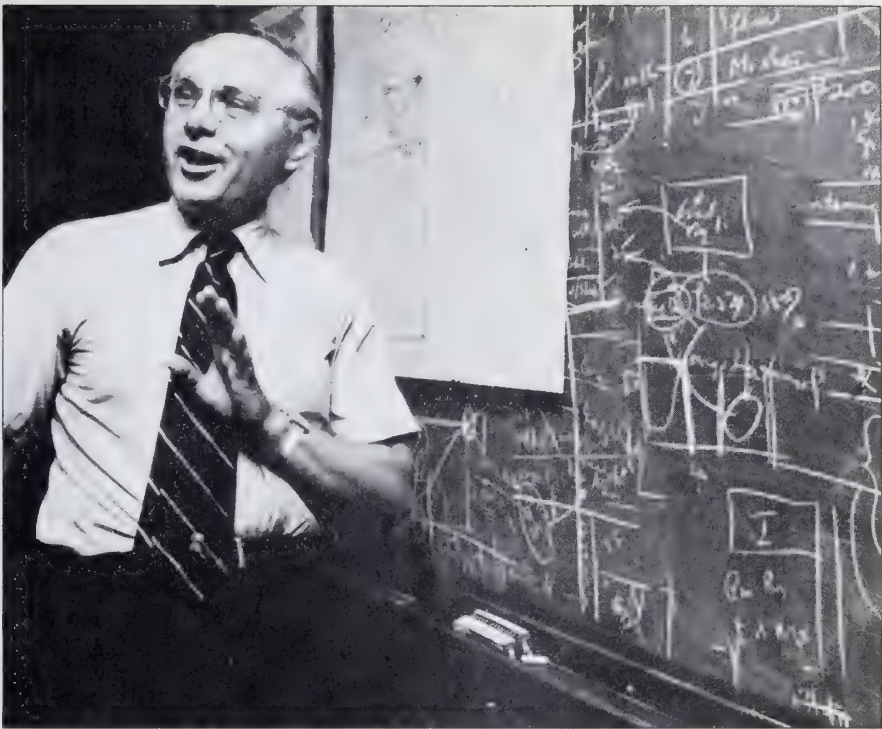
More, but later

Be careful if you're thinking of buying any of those high-flying technology issues—the ones with a "bio" or a "dia" in the corporate name. They may be in for a fall, and it may take years for the market to reflect their true value again.

So says George Kozmetsky, who should know. He's been there before in both business and technology, first at Litton, then at Teledyne, which he cofounded in 1960 with Henry Singleton (Kozmetsky still has \$112 million in Teledyne stock). He later became dean of the college and graduate school of business of the University of Texas at Austin and left that post last year to run a research center, the Institute for Constructive Capitalism, on the Texas campus. *FORBES* spoke with him there.

"It's obvious the market's shooting up technology in 1983," Kozmetsky says. "But it's really like this." He raises a finger. "Psst." Then he drops it. The overall investment climate for technology, Kozmetsky says, may be more difficult today than in the past 25 years. "In the 1950s and 1960s," he says, "it never took longer than five years to get to the stage where the market price of a stock reflected the company's real strength. In the 1970s it took seven. In the 1980s I expect it will take ten or more."

Why? True, venture capital startup money has increased significantly, going from \$2.5 billion in 1977 to \$6.7 billion in 1982. The problem is that over the last decade venture capitalists have become far more cautious, partly because they were stung by the collapse of the technology glamour stocks of the 1960s. "So investors got impatient," says Kozmetsky. "They said, 'Don't tell me what you did last year, what are you doing now?'" Add to this cuts in federal funding for research and development, which had



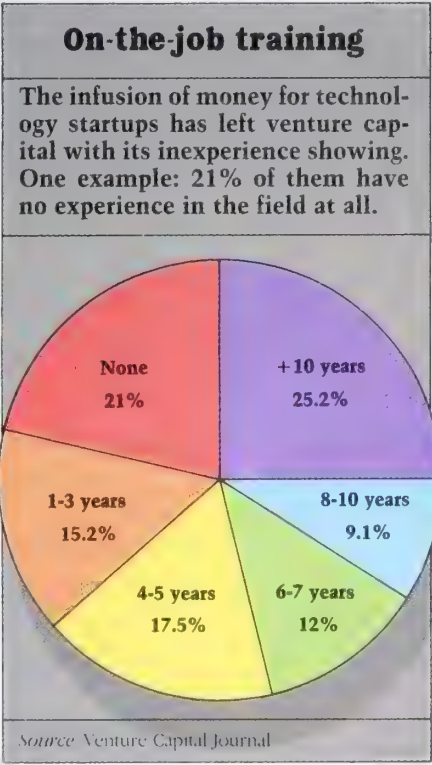
George Kozmetsky of the University of Texas
You may win a Nobel Prize, but will you make money?

provided a cushion for many startups. "In 1968 we virtually shut down research and development," Kozmetsky says. "Total U.S. R&D in constant dollars didn't reach the 1968 level again until 1978—and 50% of research is government funded."

In short, the risks increased. "To go from advanced research to commercialization takes about 16 years,"

Kozmetsky says. "Venture capitalists discovered that if you get in early you might help win a Nobel Prize, but you won't make a lot of money." Without government contracts, banks got leery about providing working capital. If venture capitalists were going to take up that slack, they wanted to minimize their risks. How? "The venture capital began coming in later—in the startup's midlife. That's why it's taking longer to pay off. Anybody who knows a growth curve knows that if you get in at the knee of the curve, you will get a ride. They started investing at that point."

Kozmetsky also points out that more than 35% of the general partners in venture capital partnerships have less than three years' experience (see chart), while less than half have over five. "And you're only talking about 1,000 professionals," he says. The jury is still out as to what that inexperience has meant. Still, he says, it must contribute to an aura of uncertainty. And with continuing high federal deficits, high interest rates, an unstable international situation and large financial institutions undergoing great changes, the time it takes for the market to reflect a company's true value may lengthen even more. Kozmetsky's advice to investors: "Be prepared to stay longer. Don't get impatient. These are 'grandchildren' investments. It takes them 18 or 20 years to grow up."—Robert Teitelman, Toni Mack, Dero Saunders





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RAYTHEON

Almost five times the number of people who live in Rhode Island will visit Newport this summer. There's a lot more to do than watch sailboats.

America's Cup runneth over

By Martin Love

IF YOU PLAN to number yourself among the millions of tourists expected to flock to Newport, R.I. this summer for the America's Cup races—as a guest on a 100-foot yacht or as a beach-bound voyeur—brace yourself for the busiest Cup series in history, on and off shore. “You can spend a million, or you can just sit on a stone wall and watch boats,” the locals like to say.

“The waters off Newport may resemble a zoo,” warns Lois Muessel, a supervisor at race headquarters. No wonder. Between now and Sept. 8, in three separate round-robin series, no fewer than seven boats from five countries will be competing for the privilege of taking on an American 12-meter yacht in the finals, which commence on Sept. 13. Meanwhile the American defender will be chosen by the New York Yacht Club from a trio of boats, after a series of trials.

The challengers from abroad are:

- from Australia, the Royal Sydney Yacht Squadron with *Advance*, the Royal Yacht Club of Victoria with *Challenge 12* and the Royal Perth Yacht Club with *Australia II*;
- from Britain, the Royal Burnham Yacht Club with *Victory '83*;
- from Italy, the Costa Smeralda Yacht Club with *Azzurra*;
- from France, the Yacht Club de France with *France III*;
- from Canada, the Secret Cove Yacht Club with *Canada I*.

The defenders? Dennis Conner is back with one of three boats (the choice had not been made at press time): *Freedom*, *Spirit* or a new 12, *Liberty*. His *Freedom* syndicate will be trying to outsail the *Defender-Courageous* syndicate, which, as the name suggests, is readying two 12s.

This year's defense could be the toughest ever. For one thing, the foreign sailors can now, if they wish, employ American-made sails and other American sailing hardware (previously they could not). For another, in the aggregate and for the first time, the challengers are spending more than the American syndicates.

The drama among the 12s offshore has always been exciting for the competitors. For spectators it's always something else. “I've been out there closer than anyone else to the races on our patrol boats and not had the slightest idea who was winning or what was going on among the competitors,” says Coast Guard Chief Doug Cooper. “You have to be on a very big [translate tall] boat with good binoculars to have any hope of figuring out who's winning, or why.”

A more important question, though, is whether instant knowledge of how the 12s are faring will matter much, given all the distractions available in the Newport area this summer—particularly if you are among those invited to come to Newport by one of the 20 or so America's Cup corporate sponsors, each of which has donated \$30,000 to the New York Yacht Club to help pay the costs of staging the Cup defense.



The Breakers, now open to the public
The Vanderbilts liked a bit of room.



Bowen's Wharf, where the tourists flock to sip, sup and sightsee

Allied Corp., in the words of Regional Sales Manager Earl Clark, believes in “going whole hog or not at all” and, at least for those invited, “going for the personalized touch.” Clark, who is running the Allied show this summer, has leased the 119-foot *Janette*, a luxury motor yacht out of Ft. Lauderdale, Fla. Two groups of 55—all Allied customers and their wives—will visit Newport between Aug. 16 and 26. Though the visitors will be staying at a Newport hotel, they will have daily access to *Janette*. The yacht will take passengers to view the finals or cruise to Block Island, Martha's Vineyard or Mystic seaport, depending on weather and the consensus whim. The company will spend upwards of \$80,000 this summer to wine, dine and transport its select customers.

Allied won't be alone in thanking customers in Newport. Xerox, Merrill Lynch and Stride Rite's Sperry Top-Sider are other official sponsors that have leased yachts upon which to entertain customers and guests. Merrill Lynch, a sponsor for the first time, has

Personal Affairs

Edited by William G. Flanagan



Nowhere else is sea fever so well accommodated, the sailboat so well pampered and sailors so much revered.

chartered the 108-foot *Avanté* from mid-August through the end of the races. Different groups of high-level corporate brass and spouses will live aboard to see the races.

Another sponsor, Mumm Champagne, a French unit of Seagram Wine Co., is on a different tack. Says George Scheppler, a vice president of Seagram, "We are not going to do a lot of entertaining of our distributors, and we are not chartering a boat." Mumm simply wants to make sure everyone gets a taste of French champagne—its own, of course. Most of the 12-meter Cup contenders have already been christened with Mumm Champagne, and the company is planning a number of parties this summer in Newport featuring its bubbly. A crew from the company will also be in Newport all summer giving away canvas sail bags, visors and plastic glasses—all adorned with the Mumm logo.

Xerox' summer program is particularly ambitious. The company is entertaining customers during the summer months and through the final races in mid-September. Guests stay

at Newport's Sheraton-Islander, a hotel on a small island smack in the middle of Newport Harbor. Says Jack LaMarque, Xerox' special events coordinator: "We considered leasing a Newport mansion for the summer but then decided getting into the hotel business was too complicated."

If you are not a guest of a corporate sponsor or other such host, you can still see almost as much—or as little—of the races as anyone else, if not quite in the same style. The bluffs at Narragansett, across the bay from Newport, offer one fine vantage point. There are also a number of tourist boats, most of which depart from Goat Island, Bowen's Wharf and Newport Boat Yard or the town dock at Jamestown, R.I. (For a listing of tourist boats, prices and points of departure, contact the R.I. Public Utilities Commission, 401-277-3500, or the Newport Chamber of Commerce, 401-847-1600.) Day rates range from about \$8 to \$30, depending on the amenities provided. And, if you are moved to try some sailing yourself, there are a number of sailing schools in the area. One, the Newport Interna-



Two-time defense candidate American Eagle is now available for charter
The American defender this year could face the toughest challenge yet.

Personal Affairs

tional Sailing School & Cruises, Ltd., on Goat Island, offers day cruises and sailing lessons.

Don't expect to find a hotel or motel room easily. Most are booked solid for the remainder of the summer and into September. There are always cancellations, of course. The best places to stay include:

- *Sheraton-Islander Inn* (401-849-2600) on Goat Island in the harbor. Fine views all around. Indoor and outdoor pools. 250 rooms, 17 suites. Rates \$90 to \$165.

- *Treadway Inn* (401-847-9000) on the waterfront at 49 America's Cup Avenue. Indoor pool and sauna. 134

rooms, many with terraces overlooking the harbor. Rates \$105 to \$225.

- *Viking Hotel & Motor Inn* (401-847-3300) at 1 Bellevue Avenue. An in-town hotel with indoor pool. 180 rooms. Rates about \$100 to \$120.

- *The Inn at Castle Hill* (401-849-3800) on Ocean Drive near the entrance to Newport Harbor. Nearby beach. Lovely views across rolling lawns to the sea. 16 rooms. Rates \$65 to \$165.

Newport also has a number of bed-



A typical Newport "cottage" Monuments to the pretax era.

and-breakfast guest houses. Call Newport Travel (401-846-1615) for information on rates and availability.

Here's a sampling of interesting places to visit among the town's Newport Mansions. Many built around the turn of the century, before the days of personal income tax, are open to the public for a small fee. They include:

- *The Elms* (Bellevue Avenue). Designed after an 18th-century French château, it was built by coal magnate Edwin Berwind in 1901. Inside are authentic Louis XIV and XV furniture and paintings on loan from the Metropolitan Museum of Art in New York.

- *Rosecliff* (Bellevue Avenue). Built around 1900 by Theresa Oelrichs and her husband, Hermann. Her father, James Fair, discovered the Comstock Lode, the fabulous gold and silver deposit in Nevada. The mansion is designed after Louis XIV's palace at Versailles. Scenes for the 1973 film *The Great Gatsby* were shot here.

- *The Breakers* (Ochre Point Ave-

A landlubber's guide to The Cup

The America's Cup has been the world's premier sailing event for well over a century. In 1851 the schooner *America* outsailed 14 of Britain's best yachts in a race around the Isle of Wight. When Queen Victoria was told the name of the victor, she asked who had come in second. "Your Highness, there is no second." That spirit of competition has never flagged.

The Cup commemorating *America's* victory reposes in the New York Yacht Club, which sponsors the event, now held every three years. For many years, beginning in 1870, it was only the British who mounted challenges. That year the British schooner *Cambria* lost the races, which were held off Staten Island. Now the event is open to yachting clubs the world over, and this year will see a record number of challenges.

Here are some other tidbits you can drop over the mahogany after the sun has crossed the yardarm:

- In 1887 the event became the one-on-one race it is today. Newport has been its home since 1930. The competition is not—at least in theory—between countries. It is formally between yacht clubs. But national pride is, of course, on the line. The host New York Yacht Club decides which challenges from foreign yachting clubs to accept.

- Since 1958, 12-meter yachts have competed for The Cup. They are not, as some landlubbers assume, 12 meters long. The 12-meter designation refers to a complex mathematical formula relating several hull di-

mensions. Most are about 65 feet (20 meters) in length.

- For many years the one challenger was merely the first to declare. But rule changes since 1970 have permitted multiple foreign challengers. In 1970, for example, French and Australian clubs challenged with *France* and *Gretel II*. The Australian boat won the right to race against the U.S. entry, *Intrepid*.

- In recent Cup competitions, two skippers have stood out. One is the flamboyant Atlantan Ted Turner. In 1977 Turner, skipper of *Courageous*, whipped two

other potential Cup defenders and later virtually blew challenger *Australia* off the triangular race course, which is set to windward about eight miles off Aquidneck Island in Rhode Island Sound. The other is Dennis Conner, 40, a San Diego businessman who in 1980 skippered *Freedom* to victory over, once again, *Australia*. (In 1980 the Aussie boat defeated two other challengers, *France 3* and the Swedish-manned *Sverige*, to win the

right to tack and jibe against Conner, who earlier had knocked Turner and *Courageous* out of the finals.)

- Between now and Sept. 8, in three separate round-robin series, seven boats will be competing among themselves for the privilege of racing an American 12-meter yacht in the finals starting Sept. 13. And three American-manned 12s, in three separate trials, will race to impress the New York Yacht Club, which will ultimately select the defender.—M.L.



The Royal Perth Yacht Club's entry Australia II Seven challengers from five countries this time.

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Show the world you couldn't have made
it without her.

A diamond is forever. De Beers

Personal Affairs

nue). Considered by many the greatest of the Newport mansions. Built by Cornelius Vanderbilt in 1895 and designed after an Italian Renaissance villa, the main house has 70 rooms, many with walls of alabaster and marble imported from Italy, France and Africa. The fourth floor has 33 rooms—all for servants.

● **Marble House** (Bellevue Avenue). Designed by the same architect who conceived the Breakers—Richard Morris Hunt—this mansion was built by William K. Vanderbilt and opened in 1892. Corinthian columns dominate the exterior. The Harold S. Vanderbilt room displays yachting trophies won by the same, who successfully defended the America's Cup three times in the 1930s.

● **Tennis Hall of Fame and Newport Casino** (Bellevue Avenue). The casino, built in 1880, was the site of the first national tennis championship tournament, a year later. Inside is the Tennis Hall of Fame—enshrining the greats of the game. Its 12 grass courts are open to the public.

● **Cliff Walk**, a three-mile path between several of Newport's museum-mansions and a rocky cliff overlooking the sea. A jogger's delight.

● **Hammersmith Farm** (near Fort Adams). A Victorian summer cottage and the site of Jacqueline and John F. Kennedy's wedding reception.

Getting a table at a Newport restaurant requires savvy or an hour or more wait. Any wait, however, would probably be justified at the following:

● **The Rhumblin** (62 Bridge Street). Resembles an 18th-century tavern and has live entertainment on weekends. Features fresh seafoods, sandwiches and salads. Also Hungarian goulash. Accepts reservations (401-849-6950).

● **White Horse Tavern** (corner of Farewell and Marlborough Streets). Supposedly the oldest tavern in the U.S., it was operated as one as far back as 1673. Around 1800 it was a favorite meeting place of the Rhode Island General Assembly. Today the menu is basically French, backed by an extensive wine list. Reservations a must (401-849-3600).

● **Clarke Cooke House** (Banister's Wharf). Inside a colonial, three-story

mansion on the harbor, here's a place to dine on classic French food by candlelight. From an outside deck you can survey the harbor and the crowds on the wharf. Accepts reservations (401-849-2900).

● **Black Pearl** (Banister's Wharf). Long a Newport landmark, this restaurant, according to Rhode Islanders, serves the best clam chowder in the state. The other seafood selections are on a par. Accepts reservations (401-846-5264).

● **Chart House** (Bowen's Wharf). If you like breads and salads, enjoy staring at nautical charts—laminated to



The Inn at Castle Hill

Count on a wait everywhere.

the tables—and crave a Bloody Mary, here's the place. The rest of the offerings, however, are standard. Limited reservations accepted (401-849-7555).

● **Christie's** (off Lower Thames Street). The oldest restaurant on the waterfront is always crowded. From an outdoor deck, where you can dine and drink, yachts seem almost within reach. Features seafood, particularly stuffed lobster. No reservations.

Hardball divorce

CONTEMPLATING A SPLIT? You need only scan the tabloids to see that courts are routinely awarding six-, seven- and even eight-figure settlements these days. Marvin Mitchelson, the "Prince of Palimony," even managed to win a ten-figure award for one of his California clients. (But since attaching half of the estimated \$6 billion fortune of the defendant, Sheikh al-Fassi, is proving nettlesome, Sheikh Dena will settle for a mere \$500 million.)

Don't take those headline cases lightly. Many states have recently passed laws that tilt more favorably to the "poorer" spouse than before. If you are the principal breadwinner going into a divorce, watch your assets.

"The biggest mistake men make is to fail to treat divorce like a business deal, to let emotions get in the way," says Mitchelson. A twice-divorced

salesman puts it a bit more cynically: "The emotional thing you get over. The money you pay forever."

Prudent handling of a divorce begins the moment you and your spouse agree to disagree. And your first stop should be at your accountant's, not your lawyer's office. The reasons are twofold. First, you need to determine exactly what you are worth. You then want to explore what you can do, as top divorce lawyer Raoul Felder expresses it, to "orchestrate" your finances. And you want to do this before the lawyers get involved.

A good accountant will be quick to point out how the timing alone of your divorce can affect your wallet. Ken Brewer, a tax manager with Touche Ross & Co., points out, for example, that a couple still legally married on the last day of the year can file a joint income tax return even though they may be divorced by the time the return is actually filed. (Note: If you have long been filing jointly, steer clear of getting a legal annulment. That could mean you and your ex will have to amend all prior joint returns and ante up any differences in taxes due.)

If you are still on a relatively civil basis with your mate—remember, this is *before* the lawyers are involved—ask your accountant how to go about dividing property to minimize the tax bite. For example, you can avoid capital gains taxes on property that you may both own if you make a present of your half rather than selling it all and splitting the proceeds. In return for that "gift" of, say, half your stock portfolio, you might get her half of some other property—a summer house, for example.

A good accountant will likewise tell you to try to structure your property settlement so it qualifies as alimony for tax purposes. This can be done by making the settlement payable over a period of at least ten years, with no more than 10% paid out in any one year. Alimony is tax deductible to you, of course, and taxable to her. Property settlements and child support payments are not deductible.

When it comes to your principal residence, keep this in mind: If either or both of you are over age 55, it will usually be better to sell the residence after the divorce. The tax bite, if any, is likely to be considerably lower.

Again, if you and the soon-to-be ex are still talking, try to determine in advance who will get the exemptions for the kids. Generally, the parent who has custody gets the exemption, unless the other parent provides at least \$600 per year for each child's

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support. Your ex has to agree to permit you those deductions, however. If she does not, you may still get the deductions if you can prove you contribute at least \$1,200 per year for the support of each child and she does not contribute more.

A good accountant will also point out something that your lawyer might not. Charges for tax advice regarding your divorce—from both your lawyer and your accountant—are tax deductible. So, have your lawyer itemize his bill to indicate such.

Try to get as much breathing room as possible before the lawyers are involved. You will need time to put your financial house in order the way you would like to have it presented in court, if necessary. For example, you don't want to start a divorce immediately after closing a business deal on which you have made a big profit. That bloats your net income. Or just prior to paying your income taxes. Nor do you want to pay off loans or reduce any other liabilities. "Paralyze your assets," advises Lou Filczer, executive director of ADAM—American Divorce Association of Men. "Increase all bank loans and bank card indebtedness," he urges, "and retrieve all credit cards. You may be liable if she runs up bills. Close the accounts if you cannot get the cards." Cold-blooded? Maybe so, but prudent.

During this period, says Filczer, also get all your bills and tax and business records together. "Establish a net-worth picture and a cost study of the necessary expenses to support yourself, the wife and the children. It can come in handy in arguing yourself into a better court order," he adds.

Once your wife sees a lawyer, particularly if it's a good one, you could find your hands tied. "Barring outright criminality—perjury, subversion of assets, backdating contracts, debts, gifts to family and so on—there is very little you can do once the lawyers are involved," says Felder, the noted New York attorney who has

won some whopping awards for his clients—usually women.

When it comes to picking a lawyer, don't settle on an old chum or someone who does not specialize in matrimonial law. "With the new divorce laws the quality of the lawyer becomes essential," says Felder. "Under the old law in most of America, except in historically community-property states, a wife would get support—that's all. Now, virtually everywhere in America she is entitled to part of the marital assets. You're talking about evaluating businesses and pensions and life insurance and stuff like that."

Another reason you want a lawyer



who constantly handles divorces is his knowledge of judges. Roy Cohn, for example, keeps close tabs on how New York judges rule in divorce cases. He sees them basically falling into two camps—pro-women and those who maintain "women can't have it both ways."

"They [women] want women's lib," says Cohn, paraphrasing a pro-man judge. "They want their own lives, they want to assume family responsibility, they want their careers—that's wonderful. But on the other hand, they have to bear some responsibility, and the responsibility they have to bear is not holding up the guy on a hook for the rest of his life paying her alimony."

Here are some other points to bear in mind:

- "Don't move out of the house,"

advises Filczer. "Why pay double rent and let your wife have access to your possessions? Negotiate for the house. If your wife alleges you're at fault and that's not the case, perhaps you can agree to an uncontested case in exchange for her half of the house. If you are awarded custody of the children, your chances of getting the house are greatly enhanced."

Note: The law allows you a hearing if the court decides to remove you from your house. Your wife has no right simply to lock you out.

- Assemble the cash you have and put it someplace where it cannot be traced by your wife or her lawyer, advises Filczer.

- Reduce your tax exemptions to zero so your net income is lower.

- Make the other side work hard to discover what you have. "Let the wife know as little as possible about your income and assets," says Cohn. And volunteer nothing.

- Don't assume you have to pay your wife's legal fees, if she has an income and the ability to pay them. "The law says the court may order her to pay if she can afford it," says Filczer.

- Look at her resources. If she has assets, you'll be in a better bargaining position when it comes to determining support and property agreements.

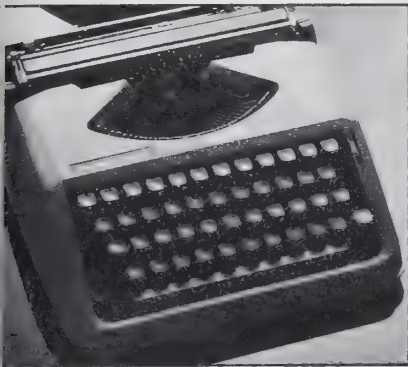
Here are three associations that offer information and counsel to men going through divorces:

ADAM (1008 White Oak, Arlington Heights, Ill. 60005. Tel. 312-870-1040) entitles members to one legal consultation, in person or by phone, and one nonlegal consultation per year for a \$70 annual fee. ADAM also provides literature on such topics as home, money, credit cards, taxes and divorce lawyers.

America's Society for Separated & Divorced Men (575 Keep St., Elgin, Ill. 60120. Tel. 312-695-2200) offers assistance to divorced and divorcing men and refers members to attorneys all over the U.S. Membership costs \$50 a year outside Illinois, \$80 in-state.

Men's Equality Now International (P.O. Box 189, Forest Lake, Minn. 55025. Tel. 612-464-7663) serves as a clearinghouse and resource center on men's rights. It is a coalition of divorce reform organizations whose objective is "to combat anti-male discrimination." Membership is \$15 a year.—W.G.F. and Kevin McManus

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Standard Electrical

Model: MS-90/3
 Carriage: 13", 18" and 27"
 Typestyles: pica, elite, baltea, diploma,
 serra and XXth century
 Tabulation: simple and decimal
 Dimension: lineal dimensions
 from 0,146 m³ to 0,196 m³
 Weight: from 25,0 to 31,5 kg
 - according to carriage's length
 Electrical specification: power supply -
 110/220 V; frequency 50/60 Hz

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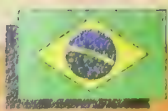
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BRAZIL:

A MESSAGE FROM THE U.S. AMBASSADOR TO BRAZIL

Mr. Langhorne Anthony Motley
Ambassador of
the United States to Brazil

Brazil is the giant of South America. This diverse nation stretches from the jungles of the Amazon in the north to the Pampas and industrial heartland of the south, encompassing an area greater than that of the continental United States. Nearly every racial group is represented in its 120 million people. Economically, as well as physically, it is the powerhouse of Latin America.

Brazil's 1981 gross domestic product of \$290 billion—larger than the combined GDPs of Mexico, Argentina and Venezuela—made it the eighth largest free world economy. There is every indication that Brazil will surpass Italy and Canada by the end of the century.

The last several years have seen an end to the "economic miracle" of the Seventies. Growth rates through the Seventies were around 8% per year. Growth in 1982 was well under 2%, better than the 1.9% decline of 1981 but far below the 7.9% growth achieved in 1980 and the 6.7% growth of 1979. The slowdown has largely been a result of the worldwide recession and the drying up of Brazil's export markets in both the developed and developing worlds.

Brazil is, of course, a nation heavily in debt, with the largest debt in the Third World. Recent agreements with the IMF and loans from the U.S. Treasury and international banks should enable Brazil



to handle its short-term needs. Moreover, Brazil's debt structure differs from that of other Latin American countries. Brazil's debt of \$88 billion comes to a per capita debt of \$692, compared to a per capita debt of \$1,308 in Argentina and \$1,112 in Mexico. Brazil's debt is 26% of the GDP, much lower than Mexico's 36% or Argentina's 30%. In recent years, Brazil has modified its economic base, moving away from dependence on primary products like coffee, sugar and soybeans. Brazil now produces heavy machinery, automobiles and trucks, aircraft, arms, computers, televisions and many other manufactured items. During a time of slow economic activity, Brazil has built up a large domestic infrastructure, including an extensive hydroelectric network and access to newly developed mineral resources, which should allow sustained economic growth (and repayment of debt) as the international economic situation improves. In the meantime, in line with its IMF-approved stabilization program, the government has implemented belt-tightening measures, including sharply reduced government deficits, changes in the salary law, lowered subsidies and a devaluation of the cruzeiro of 23%.

In the midst of these economic troubles, Brazil has continued with its "Abertura" or political opening. After almost two decades of military-dominated rule, Brazil is moving to a more open, democratic political system. The November 1982 elections saw the opposition

take control of the governments of ten states, including the economically powerful states of São Paulo, Rio de Janeiro and Minas Gerais, and win large inroads into the federal chamber of deputies and federal senate. However, the ruling government party still controls the electoral college and will most likely choose the next president in 1985.

Despite its current economic woes, Brazil remains a large market for U.S. goods and services. Brazil welcomes foreign investment, particularly if it will help its exports or import substitution program. Joint ventures are welcome, particularly those that bring technology transfers. Only in the areas of telecommunications, informatics and petroleum extraction and refining are there tight controls on foreign participation.

In other areas, foreign firms are treated the same as domestic companies. Total foreign investment and reinvestment in Brazil stood at \$19.6 billion in June 1982. Of that amount, U.S. investment accounted for \$6.1 billion, or 31% (up from 30% in December 1981). Dealing with Brazil will require creative business arrangements. American firms face stiff competition from Europe, Canada and Japan, but the long-term prospects are bright and the rewards for enterprise and imagination could be considerable.



ECONOMIC OVERVIEW.

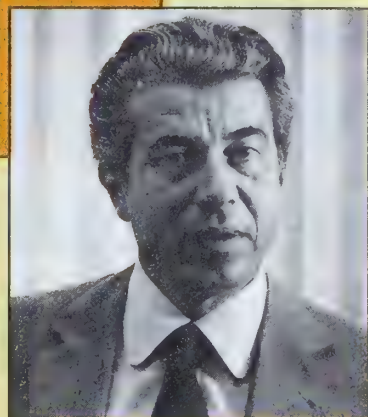
OBSTACLES AND THE ROAD TO RECOVERY

ng. Enrico Misasi
residente de Olivetti do Brasil

Brazil grew at an average rate of 8.8% a year between 1971 and 1980. In fact, over the past 25 years, the GDP has tripled. However, oil shocks and other economic blows resulted in the 1981-82 recession. In the last couple of months a series of steps was taken to direct Brazil toward effective economic recovery, assuming two fundamental conditions: A \$6.5 billion surplus in its trade balance. This figure could be lower if crude oil prices and foreign loan interest rates drop in comparison to what they were in December 1982. At the current price of oil and today's interest rates, the needed \$6.5 billion could shrink to \$5.5 billion or even \$5 billion.

A curbing of the enormous rate of inflation—around 105% a year—with which we have been living.

Expanding the first point, foundations have already been laid for a surplus in our trade balance. First, the sharp 30% devaluation of the cruzeiro on February 10, accompanied by the weekly mini-devaluations, that together have led to an overall devaluation rate of 65.3% in the first quarter of 1983, will contribute to increasing the foreign competitiveness of



our products. Second, the containment of industrial costs, achieved by cutting wages (already decreed by the Executive Branch of the government and now under study in Brazil's Congress) and the establishment of price controls on inputs and industrial products at 90% of the inflation rate, will allow the benefits of the maxi to linger, instead of being diluted in a short period of time.

With these two measures, among others, Brazil's economic impresarios should be able to leave home this year, sample case in hand, to sell \$23 billion worth of quality-competitive products—now attractively priced, as well—a wholly feasible economic venture, considering that these \$23 billion in exports represent 1% of world trade.

As to the curbing of inflation, the containment of wages and official price controls (both projected at levels lower than the anticipated inflation), plus drastic cuts in government spending and a reduction in domestic bank interest rates by 15% to 20% over the year's inflation rate (the last two measures yet to be put into effect) should bring down the inflationary rate by at least 20 percentage points this year.

It is my belief that it will be easier for us to achieve a surplus trade balance than to make any important advances in combating inflation because any attempt to trim the fat—and there is a lot of fat—off the costs of public companies is sure to meet with heavy resistance, given the politically powerful nature of these companies. In

any event, Brazilians know it is imperative to achieve both, and to do so within the year.

On the foreign scene we can see some light at the end of the dark tunnel in which we find ourselves. Rays of hope include the resurgence of economic growth in the United States, the drop in crude oil prices and the decline in interest rates, to name only some factors that will contribute to Brazil's regaining its economic equilibrium and resuming its growth at a rate perhaps more modest than in the recent past, but certainly more constant and lasting.

It is important to stress that the process we have adopted to pull us out of this rut, or better yet, to train this prizefighter for his next rounds, should exclude certain practices commonly used in developing countries to combat rampant inflation. I refer specifically to unemployment—or let us say, underemployment—which due to our lack of protective mechanisms (namely unemployment benefits) may spur social tensions to such heights as to compromise the process of redemocratization that we are now experiencing and that has permitted the moderate opposition and the center to win the gubernatorial elections in states representing almost 70% of the country's gross national product.

In other words, the current central government and the opposition which is just starting to govern Brazil's principal states must be able to work together in a reasonable social climate, so that the country is able to produce and export, and thus honor its foreign financial commitments. I am not excluding our obligation to endeavor to come to terms with our creditors in further negotiations, but as a foremost condition there must be a reasonable social climate for our country to continue on the path of modern social capitalist democracy in this part of the world.

Minister Ernane Galvão is honored in 1983 by the Brazilian-American Chamber of Commerce as Man of the Year. The award is presented in recognition of outstanding accomplishment and contribution to the cause of economic and trade relations between the United States and Brazil.

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Chiyoda-Ku; tel. 2120931/4; telex 0222-3468.

On the Docket

Say you are on trial for making an accounting error. Do you want jurors who are good or bad at math?

Practicing law . . . and casing juries

By Richard Greene

WHEN LARGE COMPANIES go into a courtroom, they frequently start off at a disadvantage. The issues contested can involve complexities like corporate accounting, product specifications and competitive strategy. How can a company hope to communicate effectively with a jury that may be made up largely of retired blue-collar workers?

Enter Litigation Services Group, a division of Doremus & Co., a New York advertising and public relations firm owned by BBDO. It does just what you would expect, but with a small public—the jury. Led by Stephen Roth, a statistician, and Anita Chafetz, who has a public relations background, Litigation Services has worked on over 20 large corporate lawsuits in the two years since it was launched.

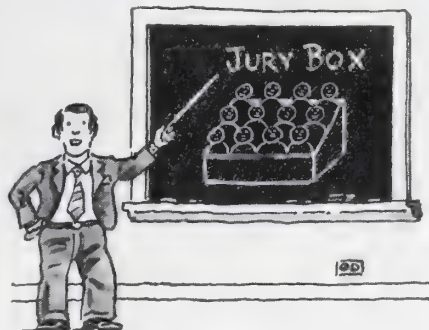
This may sound like yet another situation where consultants are adding a layer to a litigation process that is already excessively expensive. But if you are a chief executive with hundreds of millions riding on the opinion of 12 jurors, knowing how to appeal to them makes a little more sense.

Listen to Roth tell a story about one of his projects: "Our client was defending a case centering on its accountants and auditors, and there was a lot of math involved. Naturally we thought we wanted people on the jury who were comfortable with math—folks who could balance their checkbooks. But we set up simulation juries and discovered that people who were good at math tended to be unsympathetic to our client. Those who weren't thought, 'Nobody could get

something this complicated right' and were very sympathetic."

Here are some other questions Roth and Chafetz have explored, with answers below:

- When a big-city lawyer and a local lawyer are co-counselors on a case tried outside the city, who should do most of the presentations to the jury?
- How do jurors feel when they see opposing attorneys acting chummy with one another during a case?
- If you are a defendant, is it wise to admit minor wrongdoing or merely to



hope the matter won't come up?

Many of LSG's findings stem from work with simulated juries. For one client, the firm may assemble as many as 45 fake panels with the same demographic makeup as the real jury. Paid participants will answer surveys, join discussion groups and evaluate various courtroom tactics. Don't confuse this with the more controversial "shadow juries," which are used to assess how the real jury is reacting to a trial day by day.

There is one major objection to probing the minds of jurors, whether the analysis is by Doremus or independent psychologists who offer similar services: Is this work really manip-

ulation in which the juror is persuaded more by the tactics of clever, mind-bending attorneys than by the facts in the case? Naturally, Roth and Chafetz say no. They argue their work enhances the advocacy system by allowing the side that better presents its case to emerge victorious.

Winning this way, of course, costs more money than conventional litigation. But, that's the law business.

ANSWERS:

1. *Usually you should go with the local attorney. The big shot, big-city lawyer may hurt your ability to communicate with a local audience.*

2. *Jurors don't like it when opposing lawyers are too friendly. They tend to think that's a sort of conspiracy and their involvement in the case is being somehow short-circuited.*

3. *Better own up yourself. Jurors raised on Perry Mason tend to make a big deal out of any wrongdoing an opposing attorney can suddenly produce with a flourish, regardless of how little it has to do with the case.*

The buck stops there

In the early Seventies there was Penn Central. Then came W.T. Grant. And in 1983 there's the Washington Public Power Supply System. Now that the WPPSS has decided to curtail nuclear power plant construction after borrowing billions, it has sparked litigation that will eventually make scores of lawyers rich.

Since March WPPSS has paid its lawyers about \$1 million a month. "We expect them to remain at least at that level for the foreseeable future," adds a spokesman. That's probably optimistic.

Here are some bills that have already been paid:

- \$2.8 million since 1982 to Culp, Dwyer, Guterson & Grader, a Seattle firm that serves as WPPSS' primary legal adviser.

- \$856,000 to New York's Cravath, Swaine & Moore. Cravath represents Chemical Bank, the bond trustee for WPPSS, and WPPSS promised to pay any of Chemical's legal fees.

- \$440,000 to Betts, Patterson & Mines, Chemical's local attorneys.

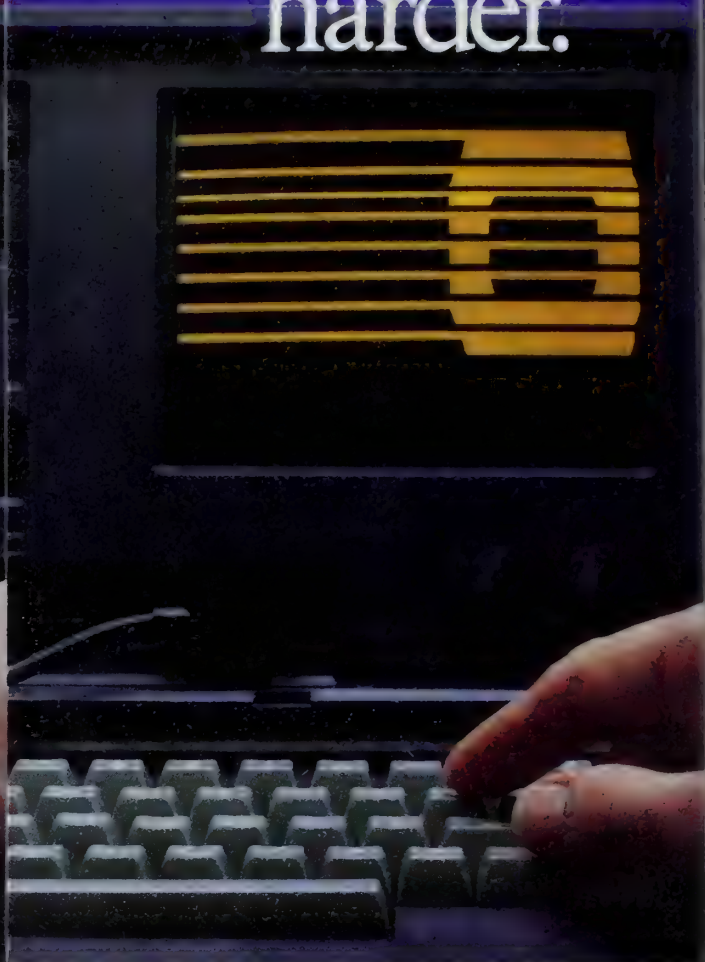
Ultimately, of course, all WPPSS bills are being paid by the utilities that had interests in the project, and most of those utilities have millions of dollars in their own related legal expenses.

But lose no sleep for the utilities, either. As regulated utilities, they simply pass along their legal costs to—you knew it—the consumer. ■

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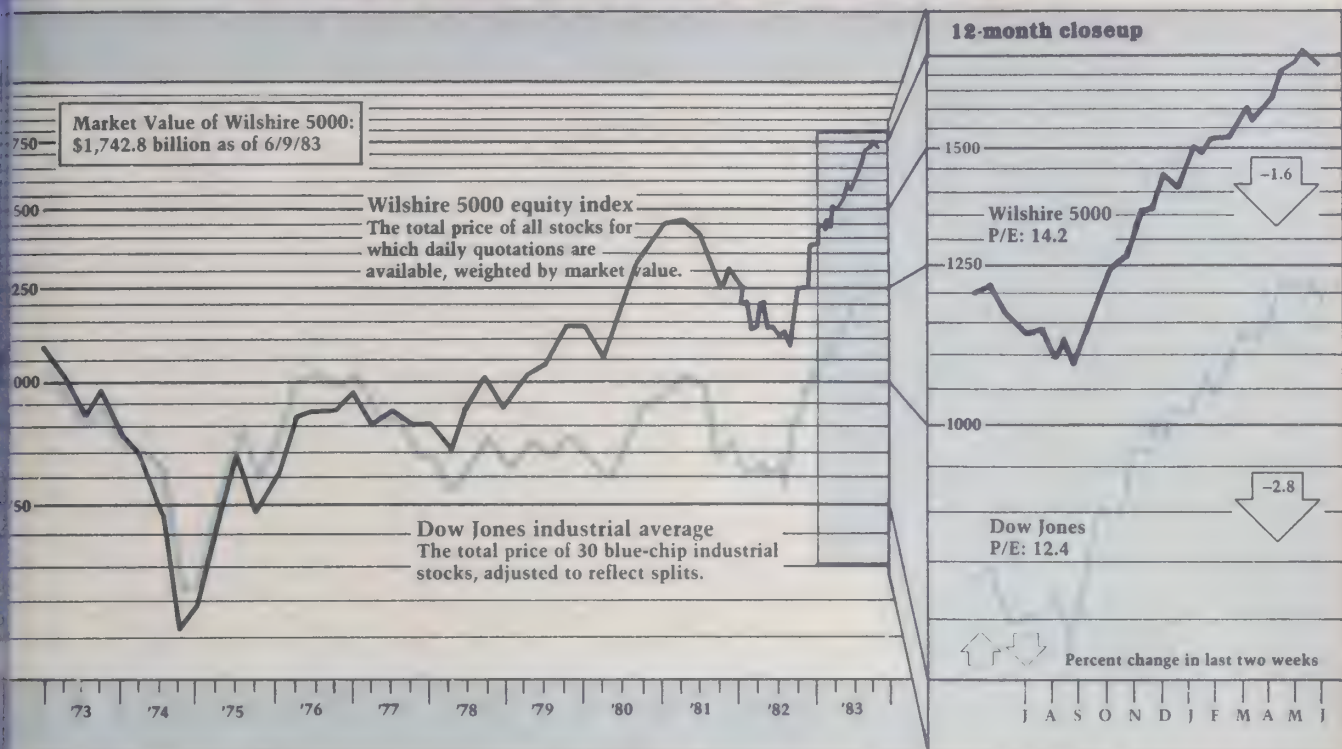
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OSBORNE
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The Forbes/Wilshire 5000 Review



A moment of doubt. When the Dow goes over 1200, off goes a signal telling investors to take profits. As a result, whenever the Dow hits that level, it generates fears the long-predicted correction is upon us. So far, however, none of the 1983 setbacks qualifies as a full-fledged retreat.

Over the last two weeks, the Dow industrials led the way down, with a 2.8% loss. The Forbes 500, off 2.2%, followed. NASDAQ issues, meanwhile, were able to eke out a minor 0.4% gain. The Wilshire index shows that equities lost 1.6%, or \$15.4 billion, during the period. And the expansion of the market's price/earnings multiple abated, at least temporarily. In two weeks the Wilshire

P/E dropped from 14.5 to 14.2. Nevertheless, the Wilshire is still 53.5% higher, and investors are some \$631 billion wealthier than they were just 52 weeks ago.

The yardsticks below indicate that losses were generally confined to middle-of-the-road securities and that money was still pouring into more speculative areas. For the last two weeks high-volatility and high-growth shares advanced 9.7% and 9.8%, respectively, vs. much smaller gains for low-volatility stocks and low-growth issues. Small companies gained 11%, vs. 0.4% for top-tier firms. And investors continued to snap up issues priced under \$4. Low-price stocks advanced 10%.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ¹	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-0.1	-1.5	-2.1	-0.8	3.2	3.5
in last 52 weeks	53.5	46.1	48.9	49.0	81.2	82.5

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	0.4	11.0	9.7	1.5	6.8	6.1	1.3	7.2	9.8	1.1	1.9	10.0
in last 52 weeks	57.8	155.7	151.0	58.2	109.2	156.6	51.3	155.6	161.4	60.5	72.8	144.2

¹Based on sales.

²A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

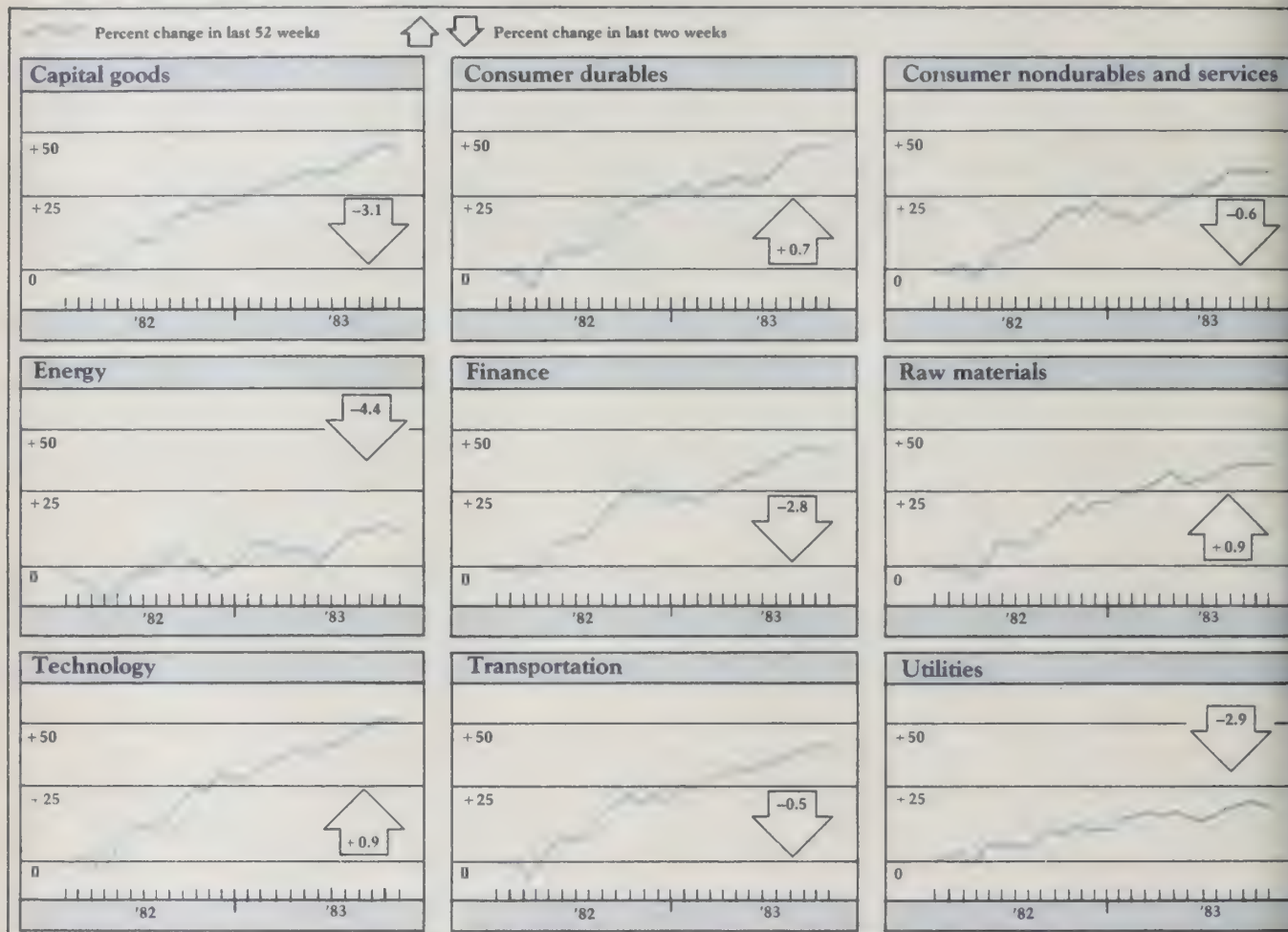
³A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 6/9/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

A slip in the oil patch. Energy issues led the market down and posted their biggest loss since mid-March. But, then, all sectors lost ground. This time some sectors posted slim gains. The oils haven't been noticeably weaker than other industries since early February. Despite their much-discussed undervaluation, these stocks remain more susceptible than other issues when the averages fall.

Capital goods, utilities and finance all declined more than the overall market, while the strongest sectors were technology and raw materials, with 0.9% gains. Despite occasional bad days, technology stocks are clearly outperforming other sectors. During the last year this group has gained 98.7%, vs. 81.8% for second-place consumer durables and 15.1% for last-place energy.

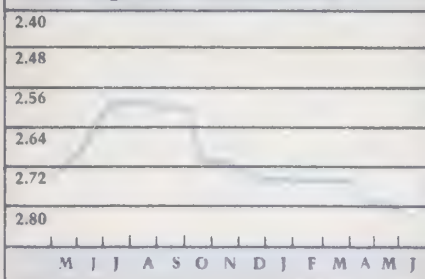


What The Analysts Think

Up from the deep. In the last two weeks the buy/sell rankings of several groups advanced. Finance jumped from sixth place to third place and transportation from seventh

to fourth. But there was still some bad news: The overall buy/sell opinion of the analysts for the nine Wilshire sectors is becoming more pessimistic.

The experts' consensus



Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite

rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	2.70	1	1
2	Energy	2.74	2	2
3	Finance	2.79	6	6
4	Transportation	2.83	7	7
5	Capital goods	2.83	3	3
6	Raw materials	2.84	5	5
7	Consumer nondurables	2.87	8	8
8	Technology	2.79	4	4
9	Consumer durables	2.82	9	9

Note: All data for periods ending 6/9/83. Prepared by Wilshire Associates, Santa Monica, Calif.

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Over there

By Paul Bornstein

IF YOU ARE LOOKING to diversify your portfolio, is this the time to consider becoming a global investor? An economic upturn in the U.S. will greatly increase the prospects of a subsequent worldwide recovery. And, because of higher fixed costs (in some countries you almost can't fire anybody), financial and operating leverage is generally greater. Third, the dollar is now considered overvalued by many international economists. If they're right, and foreign currencies come back into better balance, foreign stocks will get still more leverage from changing exchange rates.

If there are attractions in the over-

seas stock markets, there are also dangers. This is no simple game. You need to take into account the dangers of inflation, political unrest, civil war, nationalization or even outright confiscation, and the ease of moving funds in and out of a country. Did we mention taxation? Many foreign nations have an automatic 15% withholding tax on dividends, and that's just the beginning of that question. Finally, it is usually harder to keep close tabs on an overseas company than on a domestic firm.

For those who feel the tradeoffs may be worthwhile anyway and want to see what's around, *FORBES* has listed all the foreign companies traded on U.S. exchanges that are not Canadian

(too familiar) and have more than \$100 million worth of their stock or American Depositary Receipts (ADRs) trading here.

ADRs are backed by varying numbers of shares on deposit in the country of origin, and ADR prices fully reflect currency exchange. They exist because many countries will not allow stock certificates, which represent ownership of national industries, out of the country. So some companies wanting to serve (or create) an American market arrange with U.S. banks to issue an equivalent.

Drexel Burnham Lambert's international analyst Rein van der Does took us on a quick tour of some of the more prominently represented countries. In Australia, he says, "Share prices aren't likely to make much headway upward because this market is very commodity-sensitive and we are currently in a disinflation scenario."

"But with the Thatcher administration in the U.K., there has been less government spending, lower inflation and a pro-business attitude." Nevertheless, he is cautious. "Although I am positive on the U.K. stock market, the strength of the pound sterling—with its close dependency on the price of North Sea oil—is of some concern."

Van der Does has also been recommending stocks in the Netherlands for the last year and is still bullish there, even though the market has already advanced some 60%. A parliamentary majority held by the center right coalition and the Dutch govern-

Overseas opportunities over here

Not all these 74 foreign securities listed on U.S. exchanges are blue chip stocks, but some might prove to be good investments. About half of the firms have

dollar-converted sales over \$1 billion, so they can't be considered fly-by-night. Currency fluctuations offer additional leverage, but this can work both ways.

Company*	Industry	ADRs in \$US (mil)	Recent price	Revenues (mil)†	Earnings per share†	P/E	Indicated yield	Country
Broken Hill Proprietary	energy	\$2,365	7 1/8	\$4,635	\$1.00	7	2.5%	Australia
Santos	energy	891	5 7/8	57	0.16	37	0.7	Australia
Minerals & Resources	copper mining	2,228	14	1,445	0.61	23	1.5	Bermuda
Novo Industries A/S	med research, drugs	1,159	59	317	2.44	24	0.5	Denmark
Bank Leumi le-Israel	banking	832	1 1/8	7,331	0.05	24	0.0	Israel
Teva Pharmaceutical Inds	drugs	707	6	47	0.04	150	0.3	Israel
IDB Bankholding	bank	396	1 1/8	NA	0.14	8	0.0	Israel
Elsclint	med instruments	362 1/2	22 3/4	103	0.92	25	0.0	Israel
Elron Electronic Inds	computers	135	17 1/4	77	0.64	27	0.0	Israel
Scitex	computer graphics	126 1/2	25 3/4	51	0.81	32	0.0	Israel
Matsushita Electric Indl	electrical equip	9,685	62 1/2	14,771	4.23	15	0.6	Japan
Hitachi	electrical equip	9,142	33 1/8	15,799	1.87	18	0.8	Japan
NEC	electrical equip	4,760	22 1/2	4,760	0.54	42	0.5	Japan
Nissan Motor	automotive	4,011	6 1/8	15,289	0.61	10	0.7	Japan
Sony	electrical equip	3,605 1/2	15 5/8	4,446	0.53	29	1.0	Japan

*All figures are converted into U.S. dollars as of the latest reporting period. Market value, recent price and earnings per share reflect ADR or U.S. shares. †Latest available figures. ‡Actual shares, not ADRs. NA: Not available. NM: Not meaningful. Sources: William O'Neil & Co.; *Forbes*; International Investors.

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Overseas opportunities over here

Company*	Industry	ADRs in \$US (mil)	Recent price	Revenues (mil)†	Earnings per share†	P/E	Indicated yield	Country
Ito-Yokado	retailer	\$3,393	19¾	\$3,817	\$1.01	20	1.3%	Japan
Fuji Photo Film	photo equip	3,117	167½	2,554	1.36	12	0.1	Japan
Honda Motor	automotive	2,956‡	34¾	8,926	3.57	10	1.0	Japan
Tokio Marine & Fire Ins	insurance	2,706	99½	2,322	5.72	17	0.9	Japan
TDK	electrical equip	2,407	44	1,292	2.30	19	0.6	Japan
Canon	photo equip	2,145	31½	2,418	1.36	23	0.6	Japan
Kyocera	electrical equip	2,090	50	638	1.57	32	0.6	Japan
Kubota	farm machinery	1,862	28	2,406	0.84	33	1.9	Japan
Mitsui & Co	wholesaler	1,506	307½	68,184	0.36	86	0.9	Japan
Pioneer Electronic	electronic equip	1,354	23	1,255	-0.43	NM	0.7	Japan
Kirin Brewery	consumer goods	1,144	17¾	4,306	1.22	15	1.3	Japan
Shiseido	consumer goods	833	20	1,362	1.14	18	0.8	Japan
Makita Electric Works	electrical equip	452	24¾	278	1.35	18	1.2	Japan
Daiei	retailer	127	47½	5,440	-0.11	NM	1.8	Japan
Telefonos de Mexico	utility	233	¾	NA	0.44	2	28.3	Mexico
Tubos de Acero de Mexico	steel piping	105	17½	276	0.62	3	0.0	Mexico
Royal Dutch Petroleum	energy	11,224‡	417½	43,866	8.08	5	6.9	Netherlands
Philips Lamp	electrical equip	2,935‡	16¼	16,100	0.91	18	3.5	Netherlands
Unilever	consumer goods	2,225‡	69½	23,134	10.03	7	6.3	Netherlands
KLM Royal Dutch Airlines	airline	197‡	49¾	1,698	-0.14	NM	0.0	Netherlands
Advanced Semicond Matls	electrical equip	164	28¾	55	0.30	94	0.0	Netherlands
Atlas Cons Mng & Dev B	copper mining	293‡	3½	222	-0.24	NM	0.0	Philippines
Benguet Cl B	gold mining	110‡	9	233	0.59	15	0.0	Philippines
Anglo American S Africa	gold mining	4,859	21½	953	2.64	8	4.0	S Africa
Driefontein Consolidated	gold mining	3,455	337½	830	3.15	11	5.5	S Africa
De Beers Consol Mines	precious metals	3,125	8¾	1,468	1.14	8	3.2	S Africa
Anglo Amer Gold Inv	invests gold mining	2,640	120¼	187	8.02	15	5.6	S Africa
Gold Fields S Africa	gold mining	2,300	141	163	7.26	19	2.7	S Africa
Vaal Reefs Explor & Mng	gold mining	2,266	119¼	993	14.63	8	6.3	S Africa
Western Deep Levels	gold mining	1,513	60½	527	7.27	8	5.3	S Africa
Kloof Gold Mining	gold mining	1,504	49¾	305	4.02	12	4.5	S Africa
President Steyn GM	gold mining	816	56	273	6.19	9	7.3	S Africa
Western Holdings	gold mining	778	54¼	478	9.50	6	9.8	S Africa
Buffelsfontein GM	gold mining	718	65¼	331	7.23	9	6.5	S Africa
President Brand GM	gold mining	695	49½	278	6.98	7	8.7	S Africa
Free State Geduld Mines	gold mining	532	51	280	11.06	5	6.4	S Africa
Palabora Mining	copper mining	481	17	232	0.92	18	1.8	S Africa
St Helena Gold Mines	gold mining	436	45¼	275	10.58	4	7.8	S Africa
Blyvooruitzicht GM	gold mining	405	167½	211	2.70	6	9.5	S Africa
Highveld Steel & Vanadium	steel prod	374	5½	325	0.57	10	5.0	S Africa
Welkom Gold Mining	gold mining	372	14½	NA	NA	NA	9.3	S Africa
LM Ericsson Tel	telecom	2,002	61¼	2,972	2.39	26	1.3	Sweden
AB Fortia	drugs	1,535	79¾	264	1.73	46	0.2	Sweden
Biogen	drugs	306‡	16½	20	-0.31	NM	0.0	Switzerland
British Petroleum	energy	10,900‡	24	51,353	2.18	11	6.5	UK
Shell Transport & Trdg	energy	9,115‡	33	29,244	4.29	8	5.8	UK
Glaxo Holding	drugs	4,599	13¾	1,533	0.48	28	0.9	UK
Imperial Chemical Inds	chemicals	4,381	7¾	12,880	0.48	15	4.5	UK
Beecham Group	drugs	3,803	5¾	2,701	0.36	16	2.4	UK
B.A.T Industries	multicompany	3,078	9¼	11,300	2.07	4	5.0	UK
Plessey	telecom	2,670	110	1,665	5.26	21	1.6	UK
Imperial Group	consumer goods	1,386	2	7,145	0.25	8	6.0	UK
Bowater	paper, paper prods	533	3¾	2,302	0.28	12	4.1	UK
Rank Organisation	office equip	486	2¾	1,038	0.20	12	5.5	UK
Courtaulds	chemicals	410	1½	2,966	0.18	8	3.5	UK
Fisons	agrichemical	373	10	526	0.58	17	2.1	UK
Tricentral	energy	259	6¾	151	0.51	13	4.4	UK
Dunlop Holdings	tire & rubber	163	1¼	2,705	-0.33	NM	0.0	UK
Dresdner Bank	bank	1,164	68½	NA	NA	NA	1.7	Germany

*All figures are converted into U.S. dollars as of the latest reporting period. Market value, recent price and earnings per share reflect ADRs or U.S. shares. †Latest available figures. ‡Actual shares, not ADRs. NA: Not available. NM: Not meaningful. Source: William O'Neil & Co.; FORBES International Investors

Statistical Spotlight

ment's proposals to lower corporation taxes from 48% to 40% in 1984 and abolish double taxation of dividends all add up to a positive outlook, in his opinion.

South African gold mining shares are a perennial favorite, according to John Van Eck, president of International Investors, a mutual fund 80% invested in gold mining shares. "Gold mining shares have done much better than gold itself," Van Eck notes. Many have doubled or better in the past year. Shares in Van Eck's fund went up from \$6.40 net asset value to \$14.29, a 123% increase, while gold went from \$300 an ounce to \$400 an ounce, a gain of 33%. Of course, you have to live with South Africa's political problems and the fact that the dividends, usually semiannual, generally vary with the recent price of gold.

Next to the U.S., Japan has the second-largest stock market in the world, based on market capitalization. Therefore, it is not surprising that it is the most popular country for foreign investing. David Gong, vice president of Rowe Price-Fleming International, which manages the T. Rowe Price International Fund, has put half of that fund into Japanese securities. He argues that the Japanese economy is now showing signs of economic recovery and the yen is undervalued relative to the dollar.

One of Gong's favorites is Fuji Photo Film. Fuji has a 70% share of the domestic market in Japan but only 5% in the U.S. "They are now aggressively promoting their product in the U.S., and Fuji is the official film of the 1984 Los Angeles Olympics," says Gong (see FORBES, Nov. 22, 1982).

As more research and information becomes available on foreign securities, more U.S. investors are nibbling. "Wall Street has been slow to meet the demand for foreign stocks," says John Abbink, international analyst at Merrill Lynch, "but business certainly has been terrific here in the first part of this year."

Will U.S. investors continue to smile on foreign stocks? "If interest rates go back up," says Abbink, "it will cream whatever chance of a recovery there was overseas and probably many investment prospects in the short term." Of course, higher interest rates would also dampen investor enthusiasm for U.S. stocks. That's the short term. Long term, foreign stocks are likely to become an ever more familiar piece of investors' global village. ■

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The Funds

These days any telephone lets you transfer money from one mutual fund to another. Is the industry handing shareholders a gun to shoot their feet?

Ready, aim... switch

By Barbara Rudolph

IN CALMER TIMES people bought mutual funds for the long haul, often after listening to a salesman's pitch over the kitchen table. But today the environment is different. Everyone wants instant gratification, even mutual fund investors.

As a result, shareholders are regularly switching their investments from one fund to another. Even widows and orphans, it seems, understand quite clearly how easy it is to pick up a telephone any afternoon at the pool, dial a toll-free number and move an account, say, from Fidelity Puritan Fund to Fidelity Cash Reserves for only a nominal fee.

Last year the mutual fund industry rang up \$28 billion worth of switches, or fund exchanges, according to the Investment Company Institute, a trade group. And if the pace continues, by year-end there will have been \$38 billion in exchanges, almost triple the 1981 level. These numbers, what's more, may understate volatility because they include only transfers among funds operated by the same management company.

This year's big news, of course, has been the grand exodus from money market funds. But switchers were active there too. Through April equity funds picked up just over half the \$1.1 billion in direct transfers from money market accounts. Municipal bond funds were also popular with money market dropouts, gaining \$379 million during the same period.

A more significant sign of the times is the fact that accounts are now moving among the narrower group of equity funds. At T. Rowe Price, for example, a trickle of investors have been dropping out of the \$1.4 billion New

Horizons Fund and moving into the \$1 billion Growth Stock Fund. That's a sign of nervousness about the sky-high prices of some of the hot little companies that New Horizon favors. The older Growth Stock Fund has a portfolio with an average P/E of 15 while New Horizon's average P/E is over 21.

In the not so distant past, most equity funds discouraged switching. But when money market accounts began siphoning off assets, many fund organizations started money market prod-



ucts. Better to let a disillusioned shareholder switch within the family than to lose him completely.

These days, despite the fact that money funds have lost their luster, investors are hooked on the freedom of moving from one fund to another. Most equity funds, of course, have risen sharply with the market. But some shareholders aren't satisfied with good performance. They want the best, and a thriving cottage industry of middlemen is waiting to help them find it.

These advisers sell their ability to use mutual funds as trading vehicles. Most individuals, so the sales pitch goes, don't have the energy or the expertise to maneuver back and forth among products like growth stock funds, money market funds or even the handful of precious metals funds. To get that advice, a client typically pays around 1½% or 2% of his assets, often in addition to normal fund management fees. Folks who can't afford personalized handholding can subscribe to newsletters like James Schabacker's *Switch Fund Advisory* and Glen Parker's *Market Logic*.

There are problems inherent in all this. Trying to pick tomorrow's hot funds is clearly a high-risk endeavor. A switcher who chases after short-term performance leaders will quickly find that funds are no different from stocks: The ones that just went up are often more likely to come down than those funds that haven't moved at all.

If your investment strategy involves steady shifting among stocks and bonds, on the other hand, then moving in and out of no-load funds is far cheaper than dealing directly with a broker. Still, market timing is a tough game to play. Most truly successful investors dismiss it as impossible and focus instead on going after long-term value.

Thanks to computerized record-keeping, switching costs fund managers next to nothing. The problem, for shareholders and portfolio managers alike, arises when market timers who follow the same adviser control a disproportionate share of a fund's assets. If a large pool of money suddenly leaves, portfolio managers could be forced to sell stock at an inopportune time, and that could hurt long-term investors. As a result, T. Rowe Price and some other firms try to enforce limits on switching. But most fund managers are willing to suffer market timers because they see switching as an effective way to bring in new customers.

Still, not everyone in the fund industry is ecstatic about the trend. Charles Royce, president of the \$67 million Pennsylvania Mutual, a top-performing growth fund, eliminated his switching option for new accounts. "It has lost us business, but I don't care," says Royce, who argues that switching conflicts with his long-term investment strategy. "The industry thinks investors need the comfort of switching," Royce continues, "but people always overtrade. Don't give them a gun to shoot their feet off." ■

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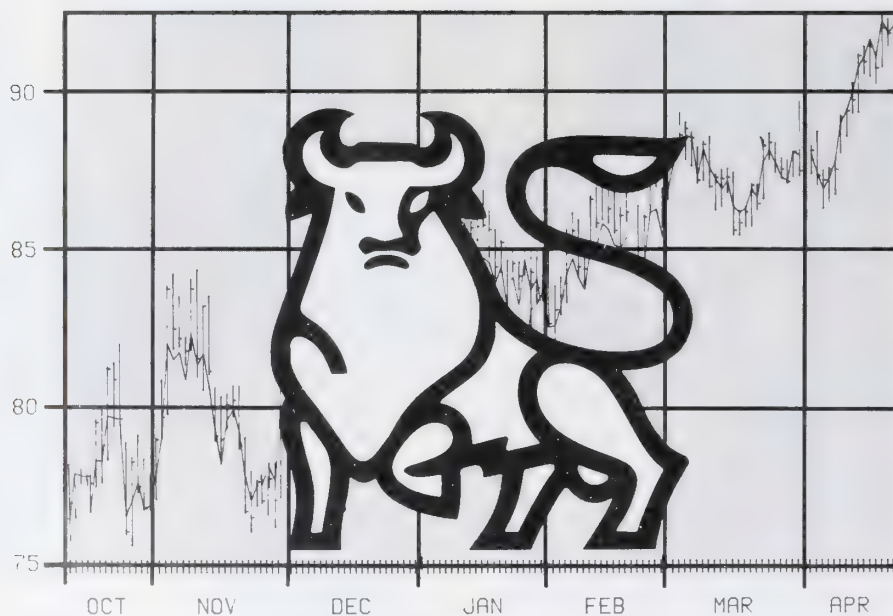
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A futures contract is simply a standardized, exchange-traded contract to buy or sell a fixed amount of a specific asset, at

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Stock index futures are a little different from other futures, in that there is no physical underlying asset. Traders simply participate in the overall performance of the stock market as measured by the index of stock prices.

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In most ways, however, stock index futures are similar to other futures contracts.

The initial margin required—which is a good faith deposit greater than the traditional margin familiar to securities traders—is approximately 10% of the contract value.

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losses from relatively small price changes, which can happen very quickly. Because of the risk, stock index futures are not suitable for everyone; you should be aware of—and be able to assume—the financial risks.

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Despite lower rates and tougher penalties, folks are working harder than ever to cut tax bills. Is all this time well spent?

The dark side of tax shelters

By Richard Greene

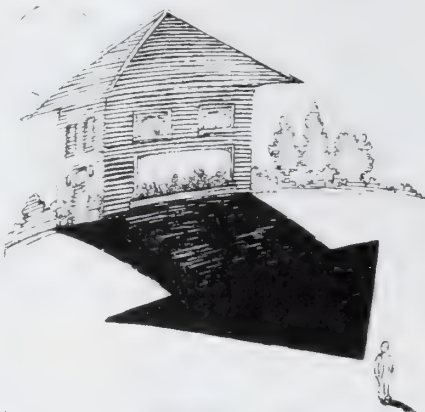
IF YOU WALKED up to a businessman, stuck a gun in his ribs and gave him the choice between handing you \$100 or simply throwing away \$200, he would have no trouble making up his mind. He would give you the \$100—and then call the cops. But, somehow, the same levelheaded businessman will thank a tax-shelter promoter for allowing him to throw away his \$200, instead of giving Uncle Sam \$100 in taxes due.

Farfetched? Not quite. Tax shelters are constructed in two halves. The first half gives you losses on an investment—sometimes more than 100 cents on the dollar—in order to get tax writeoffs. The second half brings you a return on that investment, in the hope of substituting capital gains for ordinary income. Unfortunately, all too many investors pay attention only to the first half of the shelter, the part where you lose your money. They ignore the second half, where you aim to turn a profit.

With the Reagan tax cuts taking effect, you would certainly expect the use of tax shelters to be on the decline. Not so. Last year \$9 billion worth of tax shelters were sold, and this year that number will probably be up to \$12 billion. A good portion of that rapid growth has been made up by IRAs and Keogh plans, of course, but there's little doubt that as the total amount of money invested in tax shelters of all types has grown, so has the amount put in shelters that will never return a penny to the investors.

Take, for example, the growing fad in highly leveraged real estate tax shelters. "The promoter buys a piece of land in the morning for \$5 million," says Robert Stanger, well-known tax-shelter consultant, "and

then in the afternoon he takes out a second mortgage on the property and brings in some additional money from limited partners so that now it's financed for a total of \$10 million. The promoter claims that since he increased the price of the property by 100%, he can turn around and increase the deduction by that much. An investor looks at the tax loss, his eyes glaze over and he signs the check. In the meantime the promoter



is adding in all sorts of fees. Unfortunately, when the IRS looks at these things, it disallows them."

The simple fact is that the business of tax shelters has always been a risky one for investors. Outrageous promoters' fees can drain any possibility of real profit from a deal. Stanger says he counted up no fewer than 37 separate types of fees in tax shelters he has looked at recently. Meanwhile the IRS is growing increasingly wary of so-called abusive shelters. That should be enough to make the average investor at least somewhat skeptical of shelters. And there's still more. Changes in the business climate added to changes in the tax laws have made the tax-shel-

ter game even riskier than ever before.

Some of the pitfalls center on the use of tax shelters as delaying devices, designed to give you deductions this year and taxable income in years to come. That's great when tax rates head downward, as they have for the last several years. "But in the next few years you may see rates higher than they are today," says David Berenson, a tax partner for Big Eight firm Ernst & Whinney. "So, someone who takes a deduction now and pays it back in a few years may wind up paying under higher rates."

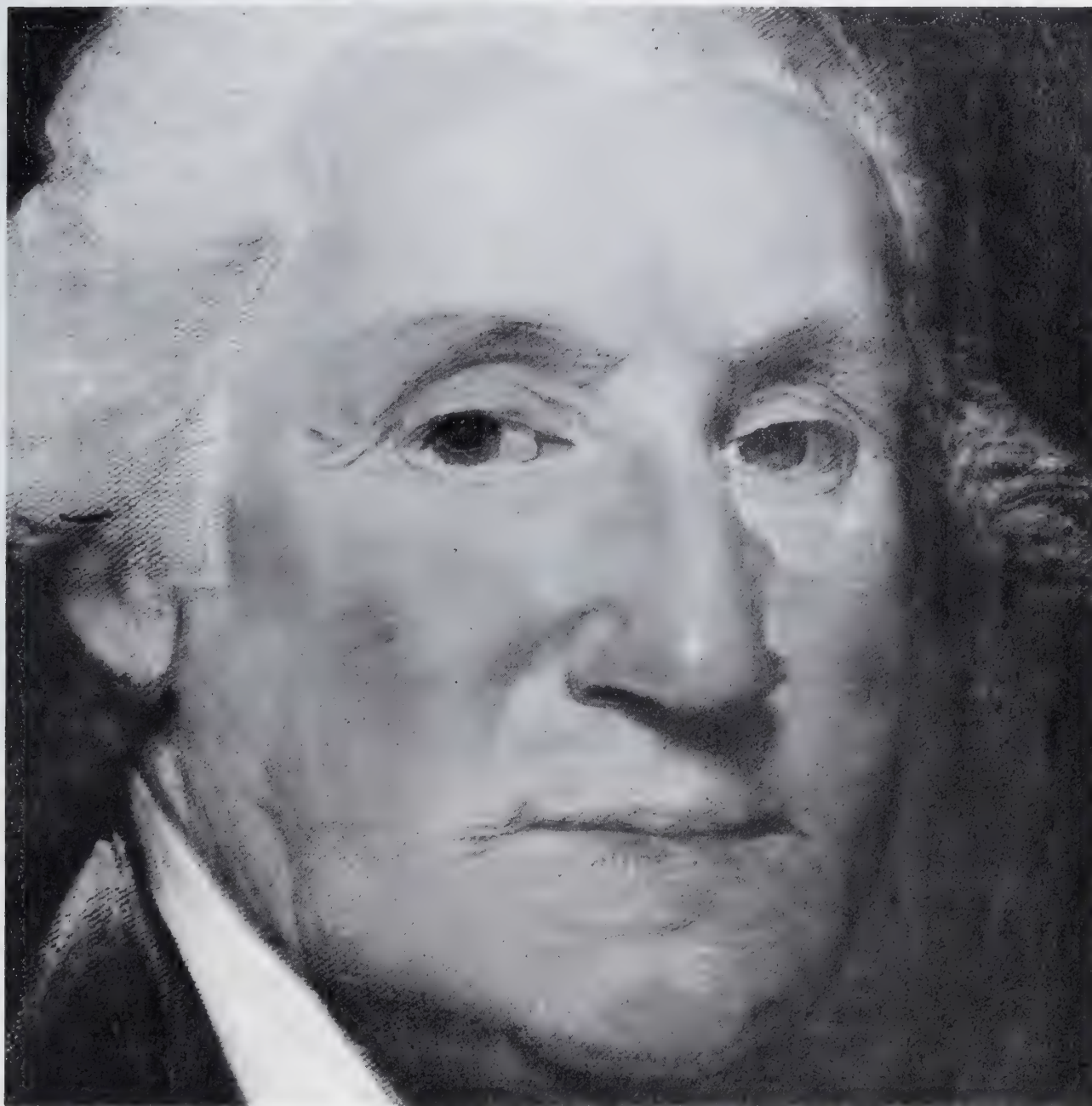
Similarly, over the past several years inflation has helped turn tax-shelter mistakes into successes. You took a writeoff in year one, and when you paid the IRS its taxes in subsequent years, you paid them in cheaper, inflated dollars. Whether inflation will stay under control for long is an open question. But there is the possibility that an ever-shrinking dollar may not save dubious tax shelters in the future.

Even as the changing economic environment makes tax shelters riskier, recent congressional action has made the risk of an IRS challenge much more serious. In the past when you were hit with a bill for back taxes, the interest charges you paid were generally less than the return you could get on your money elsewhere. So even when you lost on the legitimacy of a shelter, you won on the spread. Now the interest rate on penalties is tied to the prime rate and adjusted every six months. For the first half of 1983 it's 16%, compounded daily. Where can you invest your money safely to earn that kind of return?

Other recent legislative changes should be just as frightening to anyone considering putting money in a shelter. Over and above the interest charge, there is a new penalty of 10% on any underpayment of tax over \$5,000. So, if you deduct \$100,000 for a disallowed shelter, the IRS will take \$10,000 as a fine. And that is not deductible. What's more, there are additional penalties if the shelter was disallowed because the IRS ruled that you had overvalued a piece of property—as might be the case in the leveraged real estate deal described by Stanger.

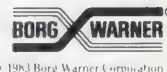
Will these hazards stop investors from going into shaky tax shelters? Probably not, if the past is any guide. For some mysterious reason, the desire to avoid paying the government money can cloud the minds of the most intelligent men. Besides, if you don't have a tax shelter, what are you going to brag about at cocktail parties? ■

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*Is nothing sacred anymore—
not even tax-free utility bonds?*

MINI-WPPSS?

By Ben Webberman



A decade ago few investors doubted that you were as safe in the bonds of publicly owned utilities as in your mother's arms. Now times have changed, and so have attitudes. The problems of the Washington Public Power Supply System are the most visible evidence of this. But WPPSS is not alone. Across the country, some other municipal utilities are facing similar if less severe crises.

Ten years ago energy planners assumed that oil would remain scarce and become more expensive and that energy consumption would grow to crisis dimensions before the end of the century. Remember those brownouts that were always around the corner? None of that happened. We all learned to get along with less power, and oil prices declined. Utilities were caught with huge construction projects half finished and with nowhere near the expected power demand required to pay off bonds issued to finance them.

The Pacific Northwest is far from the only region where public officials committed themselves to building expensive new capacity that they later found they didn't need. Surprisingly, one future trouble spot could be the Sunbelt, the fastest-growing part of the U.S. Why? Because of the possibility that

Canada's hydroelectric-rich provinces will sign long-term contracts to sell cheap power to the northern U.S. It was cheap power, remember, that helped spark the phenomenal growth of the Sunbelt in the first place. What if cheap power revitalizes New England and the Midwest and begins to draw industry back from the South?

If that happens, some expensive utility construction in the South would look less and less viable. Take, for example, *North Carolina Municipal Power Agency No. 1*, which owns a 75% interest in a \$1.3 billion nuclear power plant under construction. The plant will supply 19 North Carolina municipalities and the Duke Power Co. Because of a little-noticed proposal for a vote by "bondholders" on how interest payments are to be met beyond Jan. 1, 1986, some analysts are voicing considerable concern.

The vote was shrewdly scheduled for the brief interval in which the underwriters hold the bonds. So it would actually be a decision of the underwriters, not of the ultimate bondholders. Hardly a disinterested body. The idea was to permit the utility to keep up interest payments if construction were delayed. But the effect is to allow NCMPA to meet its interest payments, not from power sales revenues, but by selling new securities—a Ponzi-like scheme that could pile up more debt every year.

For similar reasons I hesitate to recommend a new offering of a big power agency, *Lower Colorado River Authority*, even though those due in 2003 are priced to yield as much as 10.5%. The \$330 million issue, brought to market in early June, is intended to refund outstanding bonds. But reserve fund requirements and rate covenants—provi-

sions that protect investors—are weaker in the new issue than in the issue being refunded. And the refunding doesn't achieve any cost savings, which is the usual purpose of a refinancing.

Cheap Canadian power could also affect power suppliers in New England itself. Take *Massachusetts Municipal Wholesale Electric Co.*, for example, which is building nuclear power plants at Millstone, Conn. and Seabrook, N.H. Bond analysts worry that because of reduced power demands on two future users—Public Service Co. of New Hampshire and Northeast Utilities Co. of Massachusetts—a mini-WPPSS drama could someday be in the cards.

Prescott Ball's director of fixed-income research, Peter Schmitt, says investors also should keep an eye on the Middle West, especially Nebraska, Iowa, Missouri, Tennessee and Kentucky. Schmitt singles out three small municipally owned utilities—*Sikeston, Mo.*, *Vanceburg, Ky.* and *Muscatine, Iowa*—where expected demand may not actually materialize.

Intermountain Power Agency, formed in 1977 to build generating facilities in the coalfields of Utah and transmit the power to Southern California, also has some critics among the analysts. But others say its power will replace outmoded facilities in southern California and, therefore, will not be affected by consumption cutbacks. IPA bonds yield about 10.7%.

There are plenty of sound utilities, of course, that don't face these difficulties. Their construction programs were more modest, either because the managers had less grandiose ambitions or because they simply couldn't afford it. In the Midwest, the bonds of *Omaha Public Power District* and *Lincoln, Nebr., Electric System* are in this group. Both utilities have limited capital requirements and low generation costs. Schmitt also favors five Florida municipal systems—*Gainesville, Jacksonville, Lakeland, Orlando* and *Tallahassee*.

But some other Florida utilities may not be in as good a shape. The sad fact is that WPPSS may be unusual in its scale, but it is far from unique. Investors can no longer afford to take all publicly owned utility bonds for granted. ■

Ben Webberman is economics editor of FORBES magazine.

Whatever its drawbacks, a return to the gold standard looks like the best way out of our present difficulties.

TIME TO TAKE THE PLEDGE

By Ashby Bladen



Until now, I have not joined the people who are urging a return to the gold standard. I regarded them as impractical fanatics advocating a policy that would be politically impossible to get adopted. But two decades of inflationary economic expansions, followed by painful but ultimately ineffective credit crunches, have finally changed my mind. I am now convinced a gold standard is the best means to force our policymakers to exercise the degree of financial responsibility that will be required to avert a decline in the standard of living of both the U.S. and the world. The alternative that the policymakers might suggest—price and wage controls—itself depresses the standard of living by reducing efficiency.

My conversion to gold was caused by the gradual loss of what I now regard as an excessive faith in human rationality. With the New Economics of the Kennedy Administration, we took the first step down the path that starts with an excessive rate of debt formation, passes through a period of intensifying financial crises and ends with a falling standard of living. The New Economists were steeped in Keynesian dogma, but they lacked

practical experience in the financial markets. As a result, they failed to realize that their proposal to run the economy permanently at full employment, at the cost of a little inflation, would motivate people to borrow excessively and buy inflation hedges.

Similar dogmas have caused excessive expansion of credit in the world as a whole. So we now find ourselves in the ridiculous position of having to lend money to countries that cannot possibly pay their outstanding debts so that they can pay the interest on those debts just to keep an international financial crisis from breaking out. I started writing and talking about the growing risk of financial crises over 15 years ago, and for much of that time I believed that if the American voters were just shown exactly where our policies would inevitably lead, they would demand that those policies be changed.

It didn't work out that way. And even when my faith in people's ability to learn by abstract reasoning began to fade, I continued to hope that our policymakers would at least learn from the accumulating experience that both the U.S. and the world as a whole are piling up a steadily less supportable burden of debts. This borrowing fever is likely to be broken only by a financial crisis severe enough to scare everybody back into lasting prudence.

Last fall the Fed postponed such a therapeutic crisis in the U.S. for the fourth time since 1966, largely because Chairman Volcker realized that this time it would have precipitated an international crisis as well. So this year we have started on another credit-fueled expansion. But the underlying disease cannot be ignored forever. By now virtually the whole world is postponing the pain

of sobering up by routinely taking another jolt of gin with the morning orange juice. And the U.S. is doing most of the pouring.

The hair-of-the-dog approach will eventually lose its effectiveness. At the moment, however, we aren't feeling too much pain in our standard of living because the euphoria of a rising bond market has led some financial institutions to repeat the very mistake that just a year ago they swore they would never again make. That mistake is to lend out at long term funds that the institutions' own creditors can withdraw on demand or on short notice. I am seeing to it that the institution work for doesn't make that mistake because, as I reported last time, I expect that interest rates will shortly rise back to a level at which funds start pouring out of financial institutions. In short, we are in for another burst of inflation and very high interest rates.

Then it will become painfully obvious that inflation and high interest rates—themselves caused by excessive creation of debts—are in turn drying up the long-term credit that finances the productive real investments on which our standard of living depends. People have no incentive to save in the form of long-term financial claims when they fear that inflation will destroy the real value of those claims.

This leads me to advocating a return to gold. The best way to overcome the experience of two decades of accelerating inflation and lay that fear to rest would be to go back to the 19th century system of complete convertibility of financial instruments into gold or some other commodity that possesses real tangible value. Ordinary Americans, as well as foreign central banks, should be able to convert dollar claims into a fixed amount of gold whenever they get worried about their future real value.

William McChesney Martin, Arthur Burns and, now, Paul Volcker were all as intelligent and responsible central bankers as we could reasonably have hoped for. We were lucky to have them, and yet each presided over an inflationary over-expansion of credit. This record has finally convinced me that the mechanical discipline of the gold standard is essential. ■

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Developing Financial Crisis

to: The serious investor who demands superior results
FROM: The Value Line Investment Survey

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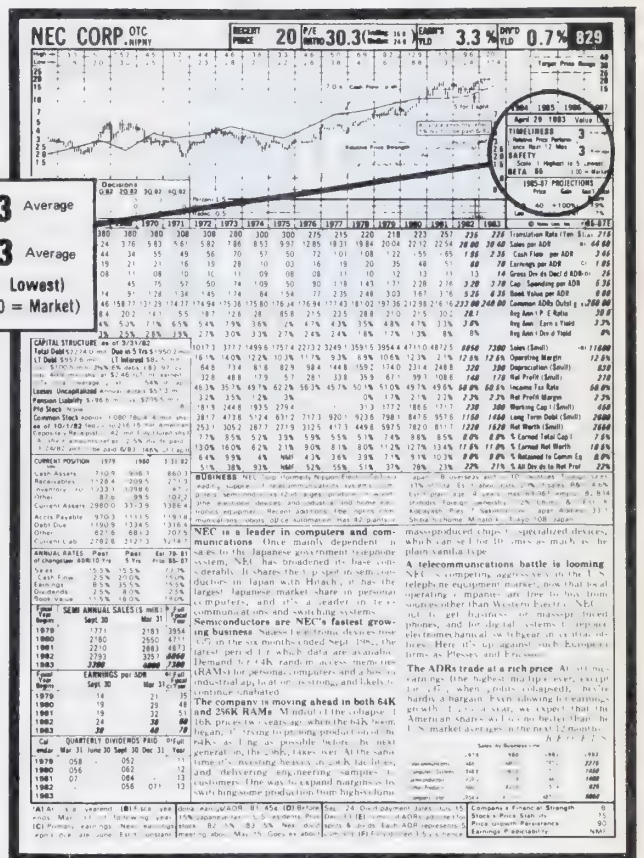
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I am a fundamentalist, but I am willing to hear what the technicians have to say.

"DR. MILFORD'S" CHARTS

By Ann C. Brown



I joined the baby bears of Wall Street a couple of issues ago in expecting a temporary near-term sinking spell in the stock market. Since I am a fundamentalist, I decided to check out my views with my old friend Dr. Milford, chartist cum laude. Like most technicians, the good doctor couldn't give two pins what a company does or where it does it, what its growth rate is or what the return on equity is expected to be. Of no interest to him are estimated earnings and dividends, currency fluctuations, merger and acquisitions prospects or whether the management graduated from the Harvard B. School or a veterinary college. National and international political and economic developments, things that fascinate us fundamentalists, are just further bits of information already reflected in the numbers Dr. Milford pores over day in and day out.

In actuality, Dr. Milford is a composite of a number of analysts I know who study the market itself instead of the underlying economic and corporate fundamentals. Dr. Milford is a chartist. At a time when a good many fundamentalist analysts are girding for a reaction, a high proportion of the Dr. Milfords remain bullish.

Ann C. Brown is chief executive officer of the equity advisory and portfolio management firm of A.C. Brown & Associates.

On interviewing my Dr. Milfords, I received the distinct impression that, while they would have liked to join me in my caution regarding the market, their charts remained bullish. The magnitude and duration of the market rise since last August, without a meaningful correction, clearly bothered my technical friends, since they pointed out this phenomenon hadn't been seen since the early 1930s. However, in spite of the pauses and very minor pullbacks of recent weeks, the upward trend was still intact and, as of this writing, Dr. Milford sees the volume building for a possible assault on the existing highs. True, it is taking increasing volume to move the market higher, but the market fails to drop significantly when the volume dries up. And when the breadth turns negative, it doesn't stay that way very long.

What stocks, then, would Dr. Milford be buying? Persuading chartists to commit to a course of action is always difficult, since they instinctively want to see the next tick. However, after much paper shuffling, Dr. Milford produced a list that he warned might be obsolete by the time this column came off the presses. With that in mind, I asked for a specific price for each stock above which he would *not* be a buyer.

Here, in alphabetical order, are Dr. Milford's top ten trading picks (all optionalable):

Stock	Buy below
Anheuser-Busch	62
Baldwin-United	12
Eastman Kodak	74
Global Marine	9½
Hughes Tool	20
Philip Morris	57
Prime Computer	20
Sony ADR	14½
Telex	20
Weyerhaeuser	38

Nearly all of the picks are of companies with currently mixed fundamentals; if they are a buy, it is because the market has overdiscounted the bad news.

Anheuser-Busch (66). Rumor has it that beer consumption is running below normal, which will hurt this number one brewer. Earnings estimates could be lowered from \$6.40 this year. Next year \$7.40 could be possible.

Baldwin-United (12). Tough new management trying to save this troubled company. Bankruptcy talk overblown, but problems could persist for years.

Eastman Kodak (74). Worst performer of the 30 DJI stocks since last summer. Worldwide recession causes sales slump, and increasing Japanese competition not helping. Earnings per share estimates for 1983, \$6.80. If dollar weakens, \$7.75 to \$8.75 in 1984.

Global Marine (10). Earnings estimated at \$1.70 to \$1.80 per share for 1983 because of contributions from existing oil-rig-drilling contracts. Earnings could tumble when contracts expire and are renewed at lower rates.

Hughes Tool (20). The earnings estimates keep coming down. For 1983, consensus is 70 cents per share. Next year, \$1.75.

Philip Morris (57). Stock down from early-year highs, possibly on lower beer (Miller) earnings, hints of a tobacco price war and concern over new no-smoking laws. Could earn \$7.25 per share in 1983 and \$8.70 in 1984.

Prime Computer (20). Full-year 1983 per-share-earnings estimates are in the \$1 area (split-adjusted). Next year \$1.50 looks attainable for this frequently mentioned takeover target.

Sony (16). Earnings still headed south and the company continues to be plagued by inventory. New products far away.

Telex (23). Underfollowed and rarely promoted, company could earn around \$2.25 per share in 1983, its fifth consecutive sizable earnings gain.

Weyerhaeuser (40). Earnings trimmed another 20 cents per share, to \$1.90 for 1983; possible \$3 in 1984. Other forest products companies offer more leverage on the housing market recovery play. ■

Decision Resources has a super growth record. The company's problem is that it is not growing fast enough.

SEAN O'CONNOR'S DILEMMA

By Thomas P. Murphy



"The computer software business," explains Sean O'Connor, 33, founder of Decision Resources, "is like other businesses, except for one thing. It is sped up by a factor of three." In practical terms, this means growth rates reckoned in months and product life cycles projected for only a few years. It also means a personal life chewed to pieces by night and weekend work as O'Connor races to make his business grow. There is no choice, he feels. It is grow fast or die.

The race started casually enough. In the late Seventies O'Connor, an M.I.T.-trained engineer, began fooling around with an Apple computer, trying to write software that would drive a plotter to generate everyday business graphics: bar charts, pie charts, graphs, etc. It worked so well that O'Connor found he could produce multicolored graphics that were better than even mainframe computers were producing, and he was doing it on a microcomputer costing a few thousand dollars and a plotter that cost \$3,200 then and \$900 today.

It looked like a marketable product to O'Connor, and he was in a good position to judge. His job was screening products for Cambridge Research & Development, a Westport, Conn. firm that starts new

companies based on inventions submitted to it.

O'Connor could write software, but he was not a trained programmer, so he hired John Segal, then a Harvard sophomore, and his own sister, Ellen, who was waiting around to get into Wharton Business School. This team got Version 3 of Chart-Master on the market early last year. O'Connor started with Version 3, figuring that customers would be wary about buying anything labeled Version 1.

O'Connor was cautious. He hung on to his job at Cambridge Research and ran Decision Resources, which was located next door, in his spare time. "I'd seen businesses liquidated," he says. "That is a sad sight."

By June of last year, Chart-Master, priced at \$375, was selling at the rate of \$18,000 a month. Some of the sales were still mail order, but increasingly Chart-Master was selling through computer stores, and that despite the fact that store personnel gave Chart-Master little time. "The computer-store people are frantically busy," says O'Connor. "What they mean by 'service and support' is that the salesman remembers your name if you come back a week later."

Not that O'Connor expected much support. "There are 16,000 programs written for the Apple computer," O'Connor explains, "and already 1,600 for the IBM personal computer." Among the latter there are eight competitive graphics programs, but all are geared for the lower end of the market, while O'Connor's market is the FORBES 500 kind of buyer.

Decision Resources grew rapidly, from \$5,000 sales in January 1982 to \$45,000 by December. But cash requirements seemed always a jump ahead of available funds. "We were

growing, but we weren't growing fast enough for the software business," says O'Connor. The problem was capital. He needed money to do more advertising, to hire a sales manager and to hire programmers to work on his next products. As he analyzed it, he had five choices:

1) Milk the business for cash and eventually fold it.

2) Continue what he had been doing, feeding all cash back into the business.

3) Sell to someone with greater resources.

4) Raise outside capital. (O'Connor figured he needed \$250,000. With that he could continue to have a lock on high-quality personal computer graphics and in 1984 show about \$5 million in sales and \$750,000 in pretax profit.)

5) Say to hell with short-term losses and begin growing the business as though he had the money.

Number five was not O'Connor's style: "Growing by just throwing a lot of money at it was repugnant. I don't like the lack of feedback and control." In fact, all but the fourth choice were rejected. "I have a great fear of failure," O'Connor says, "and a great desire for financial independence." He defines the latter as a net worth of \$2 million.

When O'Connor set out to raise capital, he quickly learned that venture capital firms don't like to talk about \$250,000 financings: "The venture industry," O'Connor concluded, "is people-limited. They don't have time to work with small investments." The venture capitalists also wanted potential sales of at least \$50 million. Decision Resources did not have that.

That took him to individual investors and companies. One small corporation in a related field invested \$150,000 in exchange for 12% of the company. Another investor, an individual, wanted to buy 20% of the company for \$200,000, but O'Connor hesitated. He had optioned stock to key employees and his ownership would be diluted to 40% if that investor came in. That, in fact, is where I left Sean O'Connor and Decision Resources. Version 5 of Chart-Master is now on the market plus a new program that does fancy lettering for presentations. It is called Sign-Master. Version 3, of course. ■

Thomas P. Murphy heads a venture capital firm, Partnership Dankist, Stamford, Conn.

Why are so many owners of personal computers unhappy with their purchases? They leaped before they looked.

FINDING YOUR WAY THROUGH THE MAZE

By Srully Blotnick



More than half of the small computer owners I have surveyed recently are frustrated. They have serious doubts about their purchases. What is bothering them? Some suspect they bought the wrong machine. Others aren't certain that they have the right software. A clear majority of the purchasers I talked with feel they could use help on both counts.

Where to get that help? How can you avoid buying a machine and software that you almost certainly won't be happy with? The best answer is to do some homework before making your purchases. Lots of homework, most of it at home. It will pay off handsomely in the long run. Many potential customers are reluctant to go into a store and just start asking the clerk questions. Why? "Because," as one prospective buyer told me, "I don't want to say something dumb to the salesman." Another typical comment, and much more to the point, "I don't think I know enough at this moment even to ask the right questions."

What is needed, then, is a good buyer's guide. However, it should be one that takes the time to explain what the products being surveyed actually do, since many consumers clearly need this additional

information. The best new book in this category is *Microcomputer Buyer's Guide* by Tony Webster (McGraw-Hill, \$19.95). It reviews products from more than 180 microcomputer manufacturers.

What about a guide to software? Those who have machines, or already know which ones they are likely to buy, find the profusion of software on the market maddening. The best way to avoid being overwhelmed by the flood is, first and foremost, to know the full range of offerings. Few of the customers I surveyed who bought software knew about more than two or three of the most popular packages. The majority were familiar with one, at most, and acknowledged that "I bought what the salesman recommended." My advice is: Before even talking to the salesman, spend some time with *The Software Catalog: Microcomputers, Spring 1983* (Elsevier Science Publishing Co., \$69. Semi-annual updates cost \$15). In addition to games, it gives concise descriptions of packages that will interest professionals in the accounting, legal, architectural, medical and dental fields. Questions about the catalog can be answered by calling 800-525-4955.

Owners who have hardware and software that satisfy their basic computing needs often want to learn more about database management packages. David Kruglinski's *Data Base Management Systems: A Guide to Microcomputer Software* (Osborne/McGraw-Hill, \$16.95) does a good job first of explaining and then reviewing the best-known products on the market. Serious students of the subject won't want to miss *Relational Database Systems: Analysis and Comparison* (Springer-Verlag, \$19.80), edited by J. Schmidt and M. Brodie. This 600-page work insight-

fully examines 14 of the most important existing relational database management systems.

Springer-Verlag has also recently published what has to be one of the most delightful books I have ever seen for those who want to use statistics to solve problems, with or without the aid of a computer. It is called *Applied Statistics: A Handbook of Techniques* (\$48) by Lothar Sachs, and should be in every corporate library. A knowledge of calculus is not required to read or use it.

Those who do know elementary calculus, and want to learn to analyze randomness of all sorts, should take a look at *Probability and Random Processes* (Oxford University Press, \$19.95) by G. Grimmett and R. Stirzaker. This new book rapidly takes the reader from the basics right through to the advanced topics needed to study important business and economic problems, and does so in a very smooth manner. A pleasure to read.

In addition to spending time with computer books like those cited above, there is something else worth doing before plunging into machines and software. It's obvious, yet needs mentioning because the machines are being so aggressively promoted and widely embraced: Ask yourself whether you really need a computer. For many people, a programmable calculator from Texas Instruments or Hewlett-Packard, say, for less than one-tenth the price is more than adequate. That is particularly so for most of the students entering engineering programs, or taking a few courses in the area, whose word-processing needs are minimal. For this group there is a noteworthy book just published by Macmillan entitled *Computation, Calculators and Computers* (\$17.95) by G. Beakley and R. Lovell. It discusses how to use programmable, hand-held calculators to solve a wide range of problems, while painlessly teaching the reader FORTRAN.

Also new and noteworthy is Richard M. Jones' *Introduction to Pascal* (Allyn & Bacon, \$23.95), one of the best Pascal texts on the market today for classroom or, especially, self-study.

Before starting out on this long, complicated journey, spend some time studying the road maps. ■

Dr. Srully Blotnick is a research psychologist and author of Getting Rich Your Own Way and Winning: The Psychology of Successful Investing.



Photo: Bill Pierce

Articles of faith.

Reporting on the inspired and dedicated people who do God's work has been a TIME tradition since the very beginning.

Despite evidence that we live in an era of high technology and low morality, this can hardly be called a godless age. Religious movements and religious personalities abound. Issues as various as nuclear strategy and female ministers symbolize crucial changes sweeping the Catholic and Protestant churches.

New religious militancy in the Middle East influences elections and foreign policy, and alters the social structure of nations. In the earth's remotest corners, 200,000 missionaries, very different from the "spiritual imperialists" of the 19th Century, work as hard to save lives as to save souls.

Decidedly, religion is news these days. But, for TIME, it always has been. From its very first issue, TIME has had a Religion section, "to find out," someone once said, "whether God was doing anything worthwhile in our generation and, if so, to report it."

From simple reportage, TIME's Religion section developed into a systematic examination of what happens when intelligence discovers something it regards as holy, and is transformed into divine discontent: a force that can not only move mountains, but make heroes. And they, as Carlyle assures us, are the people who make history.

Understanding heroes and their

inspirations is what transforms mere news into living drama, and brings coherence to events that seem otherwise to defy comprehension.

TIME Magazine's missionary zeal in finding, exploring and communicating the human source of current events creates an appeal, emotional as well as intellectual, that each week attracts nearly 30 million men and women around the world.

More goes into it.

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AMETEK, Inc.

N
NEW YORK, N.Y., May 26—The Board of Directors of AMETEK, Inc. (NYSE-PSE) today approved a two shares for one stock-split in the form of a 100 percent stock dividend on the industrial manufacturers 11 million shares. Stockholders of record at the close of business on July 1st will be mailed the additional shares on July 15, 1983. AMETEK's Board also declared the regular quarterly dividend of 30 cents per share for the second quarter of 1983, payable June 29 to stockholders of record June 15, 1983. AMETEK's Chairman, Dr. John H. Lux said that at its next dividend meeting the Board of Directors will consider paying a 20 cent per share quarterly dividend on the new split stock, equivalent to an increase to 40 cents per share on the current stock.

AMETEK last month reported that its first quarter net income was a record for any quarter in the company's history. It recently reached agreement to purchase the Microfoam plastics packaging materials operation in Wurtland, Kentucky from the Du Pont Company and an understanding in principle to purchase the Karbate graphite equipment business from Union Carbide Corporation. Both acquisitions are for cash and are expected to close in the third quarter of this year.

AMETEK, a Fortune-500 Company listed on the New York Stock Exchange since 1930, has increased total dividend payments annually for a third of a century.

(Contact: Darrah Ribble, Jr., AMETEK, Inc., Station Square Two, Paoli, PA 19301. Phone: (215) 647-2121.)

ALTEX OIL CORPORATION

A
DENVER, COLORADO, May 18, 1983—Cecil C. Wall, President of Altex Oil Corporation, (ASE: AOC) and Raymundo J. Chico, President of American Gold Minerals Corporation, (NASDAQ: AGMC) today announced an agreement in principle in which American Gold is to become a wholly owned subsidiary of Altex.

The proposed merger would result in American Gold shareholders receiving one share of Altex common stock for each 7 1/2 shares of American Gold. There are presently 14,400,000 shares of American Gold outstanding.

The agreement is subject to the negotiation of a definitive agreement, the approval of the respective boards of directors and the shareholders, and compliance with applicable requirements of the Securities and Exchange Commission. American Gold, as a wholly owned subsidiary, will manage Altex's newly formed metals division. This division will contain not only the present gold, uranium and other mineral assets of American Gold, but also future acquisitions that the companies may make in the precious, strategic and semi-strategic minerals.

(For more information, contact Cecil C. Wall, (801) 789-4550, or Raymundo J. Chico, (303) 770-5004.)

CONTINENTAL SILVER CORP. (CONTINENTAL) O-V ARIZONA SILVER CORPORATION (ARIZONA) O-V

Directors' Report to Members (Shareholders)

VANCOUVER, B.C., Canada, June 6, 1983—The BOARD of DIRECTORS are pleased to announce that the first phase of an equity financing program by Continental Silver Corp. (CONTINENTAL) successfully took place on June 3, 1983 resulting in immediately raising the Company net proceeds of \$1,526,250 (Cdn).

Further, pursuant to the program CONTINENTAL is in a position to raise an additional \$4,425,000 (Cdn) over the next year if all the Share Purchase Warrants forming part of the financing are exercised.

These proceeds, together with the cash flow anticipated to be generated primarily from mining production, will enable CONTINENTAL to accelerate exploration and develop-

ment operations on its WHITE HILLS Mining Properties located in Mohave County, Arizona, U.S.A.

In addition, CONTINENTAL will be in a strong financial condition:

- To exercise the OPTION and participate as to its proposed 40% undivided interest, in the development of and production from the EUREKA Mining Property comprised of 15 mineral claims also located in Mohave County, in the general vicinity of the Company's White Hills Mining Properties;
- To commence an exploration program upon conclusion of a Mining Lease with respect to a strategically located Mining Property in the WENATCHEE GOLD BELT AREA, County of Chelan, Washington, U.S.A.

The acquisition of and the exploration/development programs contemplated for the EUREKA and the WENATCHEE GOLD BELT Mining Properties are subject to the final approval of the regulatory authorities.

The operations in TENNESSEE, U.S.A., are continuing to produce gas on a minimal basis. Meanwhile, representatives in San Angelo, Texas, U.S.A. are continuing to search for, examine and evaluate potential oil and gas prospects.

Recent Significant Developments

The recent lease from United Nuclear of a silver assay probe will enable CONTINENTAL to obtain close to absolute control on its mining properties thereby, among other things, keeping development costs down due to the fact that the geology can be more precisely determined. The probe is run into the drill hole and computerized effectively assays every 60-90 seconds any silver values encountered and stores the information in the computerized probe mechanism.

In conclusion, CONTINENTAL is now in a healthy position to take full advantage of earlier development work, and to achieve increased silver/gold production for the reasons as follows:

- The new silver assay probe is expected to greatly improve and expedite the existing exploration and development programs and enable the existing and virgin ore bodies on both the WHITE HILLS and EUREKA Mining Properties to be probed and, where warranted, to be produced;
- It is anticipated in the very near future to gradually shift from processing of lower grade dump material to higher grade underground ore;
- Development work on the EUREKA Mining Property is proceeding very satisfactorily and nearing the commencement of production.

During the ensuing year CONTINENTAL will concentrate its main efforts on its Mining Properties including broadening the base thereof by the acquisition of other properties of merit in the general vicinity of WHITE HILLS where warranted.

***ARIZONA SILVER CORPORATION is acquiring the other remaining 60% undivided interest in the EUREKA MINING PROPERTY and is also further continuing with development and mining operations on its adjacent WHITE HILLS 85 mineral claims.

CAPITALIZATION

Arizona Silver Corporation	Continental Silver Corp.
Authorized 10,000,000 shares	Authorized 5,000,000 shares
Issued 3,926,934 shares	Issued 2,545,086 shares
Listed:	Listed:
Vancouver Stock Exchange/ARZ	Vancouver Stock Exchange /CVR
NASDAQ /ARZ NF	NASDAQ /CTL SF

(Contact: Charles S. Underhill, Director, Arizona Silver Corporation & Continental Silver Corp., Suite 1140, 625 Howe Street, Vancouver, B.C. Canada V6C 2T5 Phone: (604) 689-5588 or Michael Connor, Balfour Securities, Suite 2170, 630 5th Avenue, New York, N.Y. Phone: (212) 489-7133 or David Morris, Cowen & Company, 545 Madison Avenue, New York, N.Y. Phone: (212) 688-7400)

GOLDRICH RESOURCES, INC.

V
VANCOUVER, B.C. Canada, June 17, 1983—Paul Frigstad, President of GOLDRICH RESOURCES, INC. (Vancouver Stock Exchange, Symbol: GRD) has announced the company

has reopened for commercial gold production, on a mini basis, the Bayonne Mine which is situated 20 miles from city of Creston, B.C. and 55 miles from the smelter city Trail, B.C. The company owns approximately 10,000 acres surrounding the original Crown Grants or 159 units in total as to mining rights.

The company's independent engineer, Roy Phendler has given ore reserves of 31,070 tons proven and 31,070 tons possible and 50,000-70,000 tons inferred by opening new tenth level. Mr. Phendler's over-all ore reserves stated in his May 10, 1983 report to the company, 1 grades averaged .442 ounces of gold per ton and .75 ounce of silver per ton over 1.77 feet of width.

Initial production is being taken from higher grade material. With numerous veins known on the property additional development work, when completed, will extend the life of the mine substantially. The company has proved the reserves for the normal three years period. Currently GOLDRICH RESOURCES, INC. has 2.3 million shares outstanding of which approximately 635,175 held by insiders in the form of escrow stock.

The company has no debt and has sufficient financing for the present production schedule. Increments of 20 tons batches will be shipped as it is readied from the mine. The first shipment was made in June.

(Contact: Paul Frigstad, GOLDRICH RESOURCES, INC., Suite 611, 475 Howe Street, Vancouver, B.C. Canada V6B 2B3. Phone: (604) 669-0515 or John Long, CRESCENT COMMUNICATIONS. Phone: (516) 360-0564.)

McRAE CONSOLIDATED OIL & GAS, INC.

HOUSTON, TX., June 1—McRae Consolidated Oil & Gas Inc. announced today that it has mailed to its shareholders a Notice of Meeting and Proxy Statement for a Special Meeting to be held on June 28, 1983. Only shareholders of record on April 29, 1983 will be eligible to vote at the special meeting.

The purpose of the meeting will be to vote on a proposal whereby McRae would transfer all its assets to two newly formed limited partnerships and would distribute the resulting limited partnership interests to its shareholders upon liquidation and dissolution of McRae. Subsidiaries of Shearson/American Express, Inc. will act as general partners in the two partnerships. The proposal was first announced by McRae and Shearson/American Express on October 1, 1982.

Definitive copies of the proxy statement have been filed with the Securities and Exchange Commission. Shareholders who receive the proxy materials will also receive copies of McRae's Annual Report on Form 10-K for its last fiscal year and of McRae's Quarterly Report on Form 10-Q for the quarter ended March 31, 1983, which were previously filed with the Securities and Exchange Commission.

(Contact: Bromley DeMeritt, Jr., Vice President, McRae Consolidated Oil & Gas, Inc., 601 Jefferson, Suite 800, Dresser Tower, Houston, TX 77002. Phone: (713) 652-5811.)

MSR EXPLORATION, LTD.

C
CUT BANK, MT., May 10—(NASDAQ: MSREF; Toronto MTN-T).

The results of the first quarter of 1983 show an all-time record high quarter for MSR Exploration Ltd.

Operating revenues for Quarter ended March 31, 1983 totaled \$2,694,000. This compares to \$1,514,000 for March 31, 1982, representing an increase in revenues of 78% over the same period a year ago.

Oil and gas revenues were up this quarter approximately 94% over the same period in 1982. This tremendous increase in oil and gas revenues is a direct result of our completion program this winter, and the expansion of our Gypsy Highview Gathering System, our pipeline and gas plant subsidiary.

CORPORATE REPORT Updates

operating income was up some 66% over the same year ago, from \$674,000 to \$1,116,000. Cash flow operations was \$1,380,000, or .18¢ per share, as compared to \$835,000, or .11¢ per share, for the same period of 1982. Our net income increased some 65%, from \$653,000, or .09¢ per share, as compared to \$400,000, or .05¢ per share for the same period of 1982. With these outstanding first quarter results, our consolidated operating revenues are estimated to reach some \$10 million in fiscal 1983, with a cash flow of over \$5 million. Our ability to generate these cash flows, under the tough economic conditions that exist today, is a direct result of the company's financial strength and capable management. We expect 1983 to surpass 1981 and 1982, as we continue to pursue an active exploration and development program, increase reserves by acquisitions, and increase our cash flow and earnings.

We believe the outlook for the balance of 1983 is most encouraging, and the future prospects of our company's growth and profitability are excellent.

Contact: Cora Belle Montalban, Corporate Secretary/Manager, MSR Exploration, Ltd., CBM Bldg., Box 176, Cutler, MT 59427. Phone: (406) 873-2235.

UNITED STATES SHOE CORPORATION

CINCINNATI, OH., May 24—The United States Shoe Corporation announced record sales and earnings for its first quarter ended April 30, 1983. Sales totaled \$318,455,000, compared to \$267,068,000 the year before, an increase of 19%. Net earnings increased 28% to \$11,423,000 from \$8,900,000 last year. Earnings per share rose to \$1.01 from \$0.78, an increase of 26%. LIFO inventory adjustments reduced earnings per share by \$.05, in contrast to a reduction of \$.06 a year ago.

Specialty retailing was a major contributor to the record quarter as its operating income increased 28% on gains of 29%.

The women's apparel group, especially Casual Corner, had excellent results. Casual Corner, with 530 units nationally, had comparable store gains of 7%. Ups 'n Downs Caren Charles also continued to perform ahead of expectations.

Riggins menswear stores, numbering 184 units, had operating gains with store-for-store increases of 12%.

Footwear performance was very positive as record earnings were posted in the quarter. Sales were ahead 12% with gains from operations advancing 23%. Results were boosted by footwear retailing, which encountered sluggish traffic and lower earnings than last year.

The Red Cross division, reflecting strong acceptance of the new line, was largely responsible for the favorable quarter-over-year comparison. Texas Boot also reported a positive increase over a year ago.

European import operations, while very satisfactory, were less buoyant as last year, when the dollar strengthened sharply. In the current period, gross margins returned to normal, historic levels.

In the quarter, the company opened almost 50 specialty stores of which 42 were in enclosed malls and 8 were free-standing strip centers. These included 17 Ups 'n Downs, 15 Casual Corner, 5 T.H. Mandy, 5 Little Folks and 4 Caren Charles units.

U.S. Shoe is continuing its previously announced plans to add approximately 700,000 square feet of retail space this year devoted to "strong value" retailing. Included in these plans will be two Front Row stores in Chicago and three Front Row stores in Houston, the company's new "softgoods" market for brand name merchandise. Accordingly, this quarter's earnings reflect heavy pre-opening costs associated with this expansion along with advertising expenses added to opening T.H. Mandy stores in Dallas and Houston. Contact: Thomas H. Voss, Senior Vice President-Finance Administration, The United States Shoe Corporation, One Wood Drive, Cincinnati, OH 45227. Phone: (513) 527-1000.

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Financial Strategy

The economy is on the way up, but this is not the time to return to old habits.

CUT COSTS— OR ELSE!

By A. Gary Shilling



Now that the three-year recession is over, you may think you can relax. You had better think again. You won't be able to slip back into the old patterns. The end of inflation, as well as the sporadic growth that my firm is predicting, means that cost increases can no longer be passed on routinely. Thus you should assume that the current difficulty in raising prices will continue indefinitely. You should develop a permanent cost-control program. Your competitors may already be moving in that direction. Nationwide nonfarm productivity climbed in 1982, when one would have expected the very weak economy to depress output per worker seriously.

Cost control means that managers should not simply fire people while retaining their positions on the organization chart. Then they will be tempted to fill the empty slots later on. Instead, they should reorganize departments, or combine them, to eliminate positions. Only after managers have streamlined their organizations should they fill positions, and then they must be careful to choose people whose talents fit in with the new system.

Eliminating minor and unprofitable lines of business is another way

to cut costs permanently, as is reducing the number of suppliers you use. Being able to reward suppliers who meet quality standards with bigger orders helps control costs, and the larger orders placed with fewer suppliers will also tend to result in lower bids. Investment in labor-saving and productivity-enhancing capital equipment may not always have immediate payoffs, but the long-term opportunities for cost saving can make such expenditures worthwhile.

Some of these investments may be unconventional. Corning Glass Works' new engineering building was designed with low partitions to take advantage of the finding that engineers get a majority of their ideas from casual conversations with colleagues, not in isolated offices. Corning says that 10% more projects are now being handled by the same number of engineers.

Upgrading the purchasing function is another route to permanent cost control. In many firms, purchased materials outlays vastly exceed labor or other high-cost items, but purchasing agents tend to be low-level people, perhaps reporting to plant managers. Significant cost savings may be possible by elevating these purchasers and having them report perhaps to the vice president of manufacturing. Results may be even better if purchasing managers are engineers who have run plants themselves and understand specifications and acceptable substitutes.

Permanent cost control can also result from a much more realistic attitude toward the value of executives' time. As consultants, we are basically selling our time and have a clear understanding of its value, but we observe many manufacturing executives, even at the most senior

A. Gary Shilling, a guest columnist, is president of A. Gary Shilling & Co., Inc., a New York economic consulting firm. He is author of *Is Inflation Ending? Are You Ready?*

level, who are concerned with the cost of capital but who would be hard pressed to put an hourly value on their own time. Is it worthwhile to take a planeload of senior officers on an overnight trip to visit lawyers in their offices if the additional cost of having attorneys visit the clients at home is only several thousand dollars?

Setting aside ego-building value, which is real and important, is the keynote address to a trade association really worth the time that the CEO and his staff spend in preparing and delivering it? These are tough questions, but developing the habit of asking them may help redirect executive time toward the most productive uses and perhaps even reduce the need for some high-priced talent.

Creating a competitive atmosphere among divisions or plants that produce similar products is another way of adding a permanent incentive to cost control. Xerox has used this technique among its U.S., British and Japanese units to encourage the production of parts and entire machines at lower costs. American employees of Xerox, threatened by external, internal and offshore competition, are voluntarily joining quality-of-work-life circles and engaging in other productivity-enhancing activities.

Of course, even in a noninflationary climate, some firms may continue to have a meaningful degree of control over the prices of their output. For most businesses, however, permanent cost control is probably the only route to success.

Firms that have cut costs on a long-term basis have been able to lower their break-even points, thus earning higher returns. For example, my firm estimates that General Motors reduced the break-even point on its vehicles worldwide from an average of 7.1 million units during the 1978-80 period to 6.2 million units in 1983. This represents a reduction of over 10% of the number of vehicles GM had to sell to break even.

A lot of us got religion during the recession and began to shed sloppy habits built up over more than a decade of inflation. Slipping back into those sloppy habits will prove costly, maybe even fatal, in the new low-inflation environment. ■

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Making money in the commodity markets in recent months hasn't been easy. But nobody ever said it would be.

MUCH ADO ABOUT NOTHING

By Stanley W. Angrist



Alas, it's time for the semiannual review of my recommendations. As you will see, it would have been better if I had stood in bed on some of the biweekly picks I made.

The first trade I suggested in 1983 appeared in the Jan. 31 issue—a bull spread in copper. Unfortunately, it was easily doable at the recommended level, and prudent traders were stopped out in mid-February with a 50-point or \$125 loss.

In the Feb. 14 issue I came up with a hog spread involving a long June and short April position, doable at 140 points premium the June. By mid-March the recommended 200-point profit could have been taken, putting \$600 in traders' pockets.

The next recommendation was made in my Mar. 28 column, and was essentially a bear spread in heating oil. Primarily because the weakness in the oil sector abated somewhat shortly after the spread was put on, the June never went to much of a premium to the May. The market stuck it in our ear to the tune of \$250.

In the Apr. 11 issue I suggested a bull spread in silver that worked just like a textbook case by widening 30 cents in a few weeks for a \$1,500 profit. This trade never showed any loss.

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

In the Apr. 25 number I showed my colors as a premature stock market bear by recommending a strategy that would show a profit in the event that the market had a substantial correction. It hasn't, and the trade didn't work, costing us \$1,000 in the process. Back to sleep for the bears.

Head bloody but unbowed, in the May 9 column I looked at a cattle versus hog spread, using three contracts of the former and four of the latter. I recommended entering the trade with the cattle at least at a 16-cent premium and a total risk of no more than \$2,400 on the trade. Recently, the loss on this open position stood at \$800, so I am sticking with it for now.

could still turn quite profitable if the two open positions go as projected. Of the trades that I recommended, 43% were profitable.

Being unimpressed with this record, I turned to the April issue of *Managed Account Reports* (5513 Twin Knolls Road, Columbia, Md. 21045), a publication that tracks the performances of professional commodity traders to see how they, as a group, have been doing. MAR compiled the figures for all publicly traded funds for the years 1979 through 1982. First, they tabulated the mean and the range of the funds' rates of return. Then, as a proxy for the risk, the mean and range of the maximum drawdowns (percentage drop in equity) were also computed. For \$5 MAR will supply a copy of their report.

MAR's results are tabulated below. Annual yields of 30% and up have been far less common than is generally supposed. (Most observers believe that yields lower than that amount are not commensurate with the risk taken. The underlying data show fund managers were, in general, better at controlling risk than earning terrific rates of return. (Once again 30% is considered to be a large, but tolerable, drawdown.)

Controlled risk, low returns

Publicly traded commodity funds have not achieved spectacular rates of return under their professional managements. They did better in controlling their risks—the average drawdown never exceeded 21%. On the evidence, 1981 and 1982 were especially difficult for professional money managers. The number of funds with drawdowns exceeding 30% in both years exceeded the number with returns greater than 30%.

Year	Number of active funds*	Rate of return			Largest drawdown		
		mean	range	number exceeding 30%	mean	range	number exceeding 30%
1979	9	43.5%	-18 to 205%	4	13.9%	3 to 51%	1
1980	21	25.5	-48 to 102	8	12.9	0 to 44	2
1981	41	4.8	-41 to 76	4	16.4	22 to 45	5
1982	57	-0.8	-54 to 37	6	21.0	0 to 52	12

*Excluding four funds dissolved during 1980

In the May 23 issue I suggested a September Kansas City versus Chicago wheat trade. It could have been entered at 5 cents KC over, and one would now be holding a 4-cent, or \$200, profit. The trade is still open.

Of the five closed-out trades, two were profitable for a net profit on the five of \$725. The two open trades show a net loss of \$600. If one ignores commissions, the first half of 1983 is pretty close to a wash. It

I have presented this tabulation for two reasons: 1) It makes my mediocre performance for the first six months look not so bad; and 2) it reveals again the eternal investment truth that low rates of return must go hand in hand with tightly controlled risks. It seems that professional fund managers paid very close attention to managing risks, which on average kept their rates of return rather modest. ■

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SOMETHING
SPECIAL

The blurring of distinction between debt and equity has caused problems for real estate, but it also offers opportunity.

HYBRID VIGOR

By Stephen E. Roulac



What you are about to read is likely to surprise you. Merrill Lynch Hubbard just sold a \$250 million real estate syndication—the largest ever—and the deal involved no debt. That's right, no borrowing, no leverage . . . just cold cash.

As Merrill Lynch's brokers tell the story, today's market offers the opportunity to buy properties outright, with cash flows comparable to those of tax-exempt bonds. Here's how the arithmetic works: Investors can expect a yield of about 8%, but depreciation shelters two-thirds of that. So the aftertax return comes to roughly 7% for top-bracket taxpayers.

That's appealing enough, but the salesmen make another argument. Today, unleveraged real estate has the safety and yield lock-in characteristics of bonds. And since rents are tied to living costs, real estate also offers an appealing potential for capital appreciation and a hedge against inflation.

This, of course, isn't how real estate financing is supposed to work. In the past, even the simplest transactions involved lots of debt and sophisticated ways of sharing tax benefits among participants. But to-

day's interest rates—at record highs in real terms—are changing things very fast. Investors can no longer rely on long-term, fixed-rate mortgages. Either the money isn't available or its cost is prohibitive.

As a result, many conventional leveraged real estate deals simply don't make sense. This also means that the old distinction between debt and equity is fast disappearing. To fill the void, creative dealmakers are turning onerous interest rates into opportunities for investors—many of whom have never before been attracted to real estate.

This is happening through a passel of unusual financing vehicles such as Merrill Lynch's all-cash syndication. Like many of these new equity positions, it has a low-risk factor that conventional real estate investors associate with debt. On the other hand, many of today's creative mortgages look lots more like equity than debt when subjected to close analysis.

Another innovative "not borrowing" product is the Sierra Pacific Development Fund, designed to let individuals invest in real estate on terms typically reserved for large institutional investors. It provides developers with joint venture money.

Traditionally, this kind of front money comes from construction lenders, and borrowing is part of what makes a project go. But now individual investors can buy equity early in the development process. That offers the potential of sharing in the development profits. The risks, of course, must be considered.

To avoid borrowing at today's rates, other real estate syndicators have gone directly into the lending business. Balcort/American Express, for example, has raised money for a series of partnerships that invest funds in secondary mortgages. The

way the transactions are structured makes returns—and risks—close to the levels traditionally associated, more with equity than with debt.

The numbers look like this: The interest rate is perhaps 200 to 300 basis points under current market levels. Equity participations, however, are intended to add between 500 and 700 basis points to make the total yield more attractive. When Balcort advanced \$400,000 on the Forest Brook Shopping Center in North Carolina, for instance, the base interest rate was 13%—well below market at the time. But provisions for deferred interest of 8% and participation in appreciated property value on sale or refinancing took the total projected return to 22.5%.

A different approach to the unsettled mortgage market comes from Winthrop, a Boston-based syndicator. Its new \$200 million partnership is to be listed on the American Stock Exchange. Winthrop proposes to buy discounted HUD mortgages on apartment projects it expects will be converted to condominiums. A precondition of conversion is paying off the HUD loans, and the difference between the face amount of the mortgage and the discount at which it is acquired becomes profit for investors. The ultimate return here depends on when and if conversions take place, but meanwhile, the downside risk is a mortgage pool yielding between 8% and 10%.

These financing instruments are a response to the same issue. High interest rates require a new calculus for investing in real estate. All-cash equity deals give investors a chance to earn the high rates that conventional lenders now charge developers. Specialized mortgage funds, on the other hand, provide debt that is cheaper from the borrowers' perspective and are structured to appeal to a new class of lenders.

Some of these unusual products may look attractive to you. Others may not. But be especially discerning before getting involved in any real estate venture. Regardless of how attractive a deal may appear, bells and whistles are no guarantee that you will make money. To do that, you need a sound project, sponsors that are intelligent and honest—and a lot of patience. ■

Stephen E. Roulac is chairman of National Management Advisory Services, a division of Kenneth Leventhal & Co., a national CPA and consulting firm specializing in real estate and financial services.

55%	10%	AdlM	19%	46%	45%	12%	9%	McRae	10%	43%	41%	43%	1%	GnBld	3%	21%
40%	13%	Apoll	57%	46%	12%	17%	11%	Midw	10%	43%	14%	14%	3%	GnBld	10%	42%
49%	25%	Ashtro	32%	53%	52%	52%	26%	Al	11%	86%	14%	14%	3%	GnBld	10%	42%
55%	19%	Atlan	258	78	35%	35%	35%	Midw	15%	86%	14%	14%	3%	GnBld	10%	42%
27%	11%	Avntek	94	34%	34%	34%	34%	Millar	19%	40%	29%	29%	1%	GnBld	10%	42%
40%	25%	Banco	2293	23%	22%	22%	22%							GnBld	10%	42%
37%	19%	BayBks	380	40%	39%	40%	40%							GnBld	10%	42%
24%	11%	Bekins	511	19%	18%	19%	19%							GnBld	10%	42%
44%	24%	BetzLb	23	26%	26%	26%	26%							GnBld	10%	42%
40%	5%	Bliss	1313	7%	7%	7%	7%							GnBld	10%	42%
30%	15%	BobEv	296	18%	18%	18%	18%							GnBld	10%	42%
16%	4%	BrwTom	459	19%	19%	19%	19%							GnBld	10%	42%
19%	6%	Bruno	436	20%	20%	20%	20%							GnBld	10%	42%
35%	14%	C COR	459	14%	13%	14%	14%							GnBld	10%	42%
21%	4%	CP Rh	413	25%	25%	25%	25%							GnBld	10%	42%
14%	4%	CGA C	172	32%	31%	32%	32%							GnBld	10%	42%
26%	9%	CPT	436	17%	17%	17%	17%							GnBld	10%	42%
34%	9%	Calmic	405	22%	22%	22%	22%							GnBld	10%	42%
19%	7%	Carus	1902	33%	33%	33%	33%							GnBld	10%	42%
23%	7%	Chrms	1644	32%	31%	32%	32%							GnBld	10%	42%
34%	17%	ChlCh	385	56%	55%	56%	56%							GnBld	10%	42%
32%	8%	Chubb	188	47%	45%	47%	47%							GnBld	10%	42%
61%	2%	Cipher	225	14%	14%	14%	14%							GnBld	10%	42%
48%	10%	ChzSoc	99	27%	26%	27%	27%							GnBld	10%	42%
15%	7%	ChzSoc	47	46%	45%	46%	46%							GnBld	10%	42%
31%	5%	CobLe	1995	22%	22%	22%	22%							GnBld	10%	42%
30%	20%	ColTle	701	25%	25%	25%	25%							GnBld	10%	42%
28%	5%	ComAl	195	8%	8%	8%	8%							GnBld	10%	42%
15%	5%	ComAm	989	32%	32%	32%	32%							GnBld	10%	42%
34%	17%	Comind	1152	37%	35%	37%	37%							GnBld	10%	42%
35%	9%	CompC	283	12%	12%	12%	12%							GnBld	10%	42%
23%	9%	CompC	366	14%	14%	14%	14%							GnBld	10%	42%
24%	9%	CCTC	302	14%	14%	14%	14%							GnBld	10%	42%
21%	10%	Cmpbv	700	14%	14%	14%	14%							GnBld	10%	42%
20%	5%	Cmsrve	252	15%	14%	15%	15%							GnBld	10%	42%
17%	6%	Concast	143	29%	29%	29%	29%							GnBld	10%	42%
30%	20%	CnCap	2167	34%	32%	34%	34%							GnBld	10%	42%
24%	7%	Convgt	1256	22%	21%	22%	22%							GnBld	10%	42%
25%	20%	CoprVis	1613	19%	18%	19%	19%							GnBld	10%	42%
20%	10%	Coors	79	58%	57%	58%	58%							GnBld	10%	42%
60%	30%	CorestF	493	19%	18%	19%	19%							GnBld	10%	42%
23%	10%	Corvus	1681	24%	23%	24%	24%							GnBld	10%	42%
27%	12%	CrosTr	249	16%	16%	16%	16%							GnBld	10%	42%
17%	5%	Defard	886	28%	27%	28%	28%							GnBld	10%	42%
29%	5%	Defar	66	14%	14%	14%	14%							GnBld	10%	42%
14%	1%	Defar	2941	15%	14%	15%	15%							GnBld	10%	42%
14%	4%	Declad	977	21%	20%	21%	21%							GnBld	10%	42%
20%	12%	Dekla	6037	21%	19%	21%	21%							GnBld	10%	42%
20%	18%	Diasom	643	13%	13%	13%	13%							GnBld	10%	42%
20%	18%	Diasom	667	33%	32%	33%	33%							GnBld	10%	42%
14%	1%	DiatSw	667	33%	32%	33%	33%							GnBld	10%	42%
23%	16%	Docusiv	505	28%	27%	28%	28%							GnBld	10%	42%
29%	10%	Dysen	2347	32%	30%	32%	32%							GnBld	10%	42%
32%	18%	ConLb	612	15%	15%	15%	15%							GnBld	10%	42%
15%	14%	Pas	301	28%	27%	28%	28%							GnBld	10%	42%
25%	6%	IRm	3714	27%	25%	27%	27%							GnBld	10%	42%
40%	6%	mulx	530	41%	38%	41%	41%							GnBld	10%	42%
10%	1%	atOil	287	9%	9%	9%	9%							GnBld	10%	42%
50%	6%	vmSut	308	37%	36%	37%	37%							GnBld	10%	42%
49%	29%	rmG	3506	43%	42%	43%	43%							GnBld	10%	42%
17%	10%	FidFdsL	243	16%	15%	16%	16%							GnBld	10%	42%
14%	2%	Fingmx	236	12%	11%	12%	12%							GnBld	10%	42%
15%	4%	Fingmx	35	14%	13%	14%	14%							GnBld	10%	42%
34%	27%	FIBKSV	76	54%	53%	54%	54%							GnBld	10%	42%
23%	5%	FIBKSV	972	21%	20%	21%	21%							GnBld	10%	42%
32%	19%	Fonar	464	30%	29%	30%	30%							GnBld	10%	42%
22%	13%	FormS	504	10%	9%	10%	10%							GnBld	10%	42%
24%	13%	Forum	746	13%	12%	13%	13%							GnBld	10%	42%
32%	13%	Forum	553	17%	16%	17%	17%							GnBld	10%	42%
32%	13%	Forum	707	29%	28%	29%	29%							GnBld	10%	42%

THESE COMPANIES EARNED AN UNEXPECTED DIVIDEND THIS QUARTER

They invested in the arts, and it's paid off handsomely. Only this time the return is in the form of national recognition. Because a distinguished panel of judges has just declared them winners in the Business in the Arts Awards competition. The Awards, co-sponsored by the Business Committee for the Arts and Forbes Magazine, is the first and only national awards program to honor businesses for supporting the arts.

There were three ways a company could earn dividends this year: First-Time Awards for new entrants, Return Awards for previous winners, and Distinguished Achievement Awards for businesses that have an outstanding history of support to the arts. These winners are located all across the country from Maine to California.

The competition involved more than big blue-chip companies. Winning firms range in size from small local businesses to giant multinational corporations. Company contributions included more than liquid assets too. They could take the form of a cash grant, the loan of personnel, the provision of in-kind goods or services, or a tie-in that used the arts in advertising or promotion.

Congratulations to the Business in the Arts Awards winners. And to everyone else, showing an interest in the arts now could earn your company plenty of interest when next year's winners are selected.

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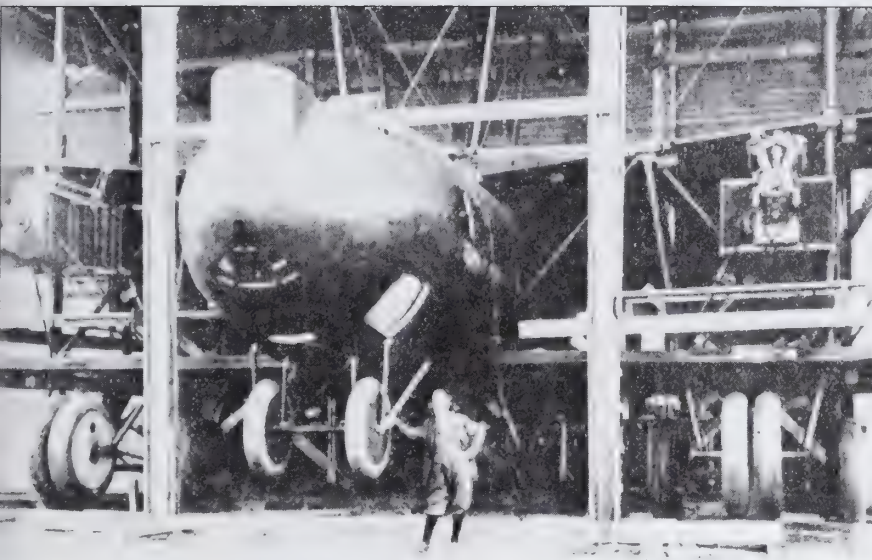
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Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ." Items from past issues of FORBES



World's largest plane, being built in 1923 near Dayton, Ohio, weighed 42,000 pounds

Sixty years ago in FORBES

(From the issue of July 7, 1923)

"The monetary position is distinctly better than many had predicted. Alarm over 'inflation' has died down. Interest rates have remained low enough to foster all legitimate enterprise. The reserve ratio, thanks chiefly to gold imports, is so high that little concern need be felt over awkward stiffening of rates when crop-moving requirements come along."

"A billion-dollar saving during the fiscal year ended June 30, 1923 was announced by President Harding and Director of the Budget Lord. An anticipated deficit of \$823 million in ordinary government expenditures was turned into a \$200 million surplus of receipts over expenditures."



Carnation Milk President Elbridge Stuart with prize bull he bought for \$106,000

Appropriations for the fiscal year 1923-24 are \$3.7 billion, which is \$234 million less than the previous fiscal year and \$7.8 million less than asked for in the budget submitted to Congress last December."

"Florida strikes me as entering an era of growth, not merely as a winter resort, but agriculturally, horticulturally, industrially, financially, commercially and real estate-wise. Florida lately has done something besides wiping out the leasing and the lashing of convicts. Her legislature has submitted to popular vote an amendment to the constitution prohibiting the levying of income or inheritance taxes upon state residents for 25 years."

—B.C. Forbes

"In many of the major industries the demand for common and skilled labor is far greater than the supply. Farmers are finding it almost impossible to obtain sufficient labor to harvest crops. Unprecedented migration of Negro labor from the South has added to the hardships of the southern farmer."

Fifty years ago

(July 1, 1933)

"This year the child labor amendment—which gives Congress the power 'to limit, regulate and prohibit the employment of persons under 18 years of age'—has suddenly come to life. Although Congress put ratification up to the states nine years ago by

passing the necessary resolution, only six states had approved it up to January 1933. And rejection by 26 states apparently had killed all chances of the amendment's adoption. Interest in it died; it became known as the 'lost' amendment.

"But in June New Jersey ratified the child labor amendment. And New Jersey's ratification brought to 7 the list of states which have done so this year [and] to 13 the total which have approved the amendment—a gain of more than 100% in six months."

"In selecting the soundest financial investments, the question of *when* to buy is far more important than *what* to buy. The latter can easily and mechanically be secured by extensive diversification; but the former requires great wisdom and courage.

"But how shall you know when it is the right time to buy? The answer is 'by the study of financial and business conditions.' . . . I could even give you a simpler rule than this. When you and others can easily get work and there is even a shortage of labor in some lines, sell securities and store cash; but when you and others are out of work and the large cities have bread lines of unemployed, buy securities. And if you previously sold when things were high, you'll have the cash to do it."

—Roger W. Babson

Twenty-five years ago

(July 1, 1958)

"It's been very stylish to invest in technical growth stocks with a science flavor. So stylish in fact that we've had an investment binge in electronic stocks—and every binge has its hangover. We're having one right now," [said] Warren B. Hayes, a big name in the booming West Coast electronics industry. . . . In 1954 he cofounded Culver City, Calif.'s Pacific Semiconductors with two scientist-refugees from Howard Hughes' unruly stable. A \$5 million (sales) manufacturer of diodes and transistors, highly successful Pacific is still privately held. . . ."

"In last year's short but sharp stock market decline, few stock groups burned investors as badly as did the 'growth' aluminum companies. Even allowing for the current rally, shares of aluminum's Big Four were down an average of 37% from their highs in late June."

All men's gains are the
fruit of venturing.
HERODOTUS

It's the price of leadership
to do the thing you believe
has to be done at the time
it must be done.
LYNDON B. JOHNSON

One of the greatest obstacles
to success is man's inability
to put first things first.
CHARLES B. ROTH

Great minds have purposes;
others have wishes.
WASHINGTON IRVING

Some people have a genius
for doing nothing and doing
it assiduously.
THOMAS C. HALIBURTON

A Text . . .

Let us therefore follow
after the things which
make for peace, and things
wherewith one may edify
another.
ROMANS 14:19

Sent in by F.M. Gaugh, Clearwater Beach,
Fla. What's your favorite text? *The Forbes
Scrapbook of Thoughts on the Business of
Life* is presented to senders of texts used.

Consistent winning is not
the purpose of an endeavor.
Consistent winning is the
inevitable by-product of
being the best.
CULLEN HIGHTOWER

Not all those who are
attempting to conduct
successful businesses
are profiteers.
CALVIN COOLIDGE

Thoughts

on the Business of Life

*Success is not a matter of
luck. It is mainly a matter
of first, work; second, work;
third, work—with, of course,
a plentiful mixture of brains,
foresight and imagination.
Remember, also, that genius
is most times the fruit of
hard work—well-directed and
long-visioned.*
B.C. FORBES

Few of us get anything
without working for it.
WILLIAM FEATHER

The combination of hard
work and smart work is
efficient work.
ROBERT HALF

If the power to do hard
work is not talent, it is
the best possible substitute
for it.
JAMES A. GARFIELD

Productive power is the
foundation of a country's
economic strength.
STAFFORD CRIPPS

Dreams never hurt anybody
if he keeps working right
behind the dreams to make
as much of them come real
as he can.
F.W. WOOLWORTH

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It may be those who do
most, dream most.
STEPHEN LEACOCK

The toughest thing about
success is that you've got
to keep on being a success.
Talent is only a starting
point. You've got to keep
working that talent.
IRVING BERLIN

There may be luck in getting
a good job, but there's no
luck in keeping it.
J. OGDEN ARMOUR

Even when I do not feel
like work, I sit down to
it just the same. I cannot
wait for inspiration, and
inspiration at best is a
force brought into action
by effort.
IGOR STRAVINSKY

If people knew how hard I
have to work to gain my
mastery, it wouldn't seem
wonderful at all.
MICHELANGELO

A big corporation is more
or less blamed for being big.
It is only because it
gives service. If it doesn't
give service, it gets small
faster than it grew.
WILLIAM S. KNUDSEN

Shallow men believe in luck,
believe in circumstances: It
was somebody's name, or he
happened to be there at the time,
or it was so then, and
another day it would have
been otherwise. Strong men
believe in cause and effect.
RALPH WALDO EMERSON

The lyf so short, the
craft so long to lerne,
the' assay so hard, so
sharp the conquyrynge.
CHAUCER



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The pride and care we show in our surroundings demonstrates one of the many commitments we make to our future. Commitment is the key to making our family, home and business what we want them to be. And commit-

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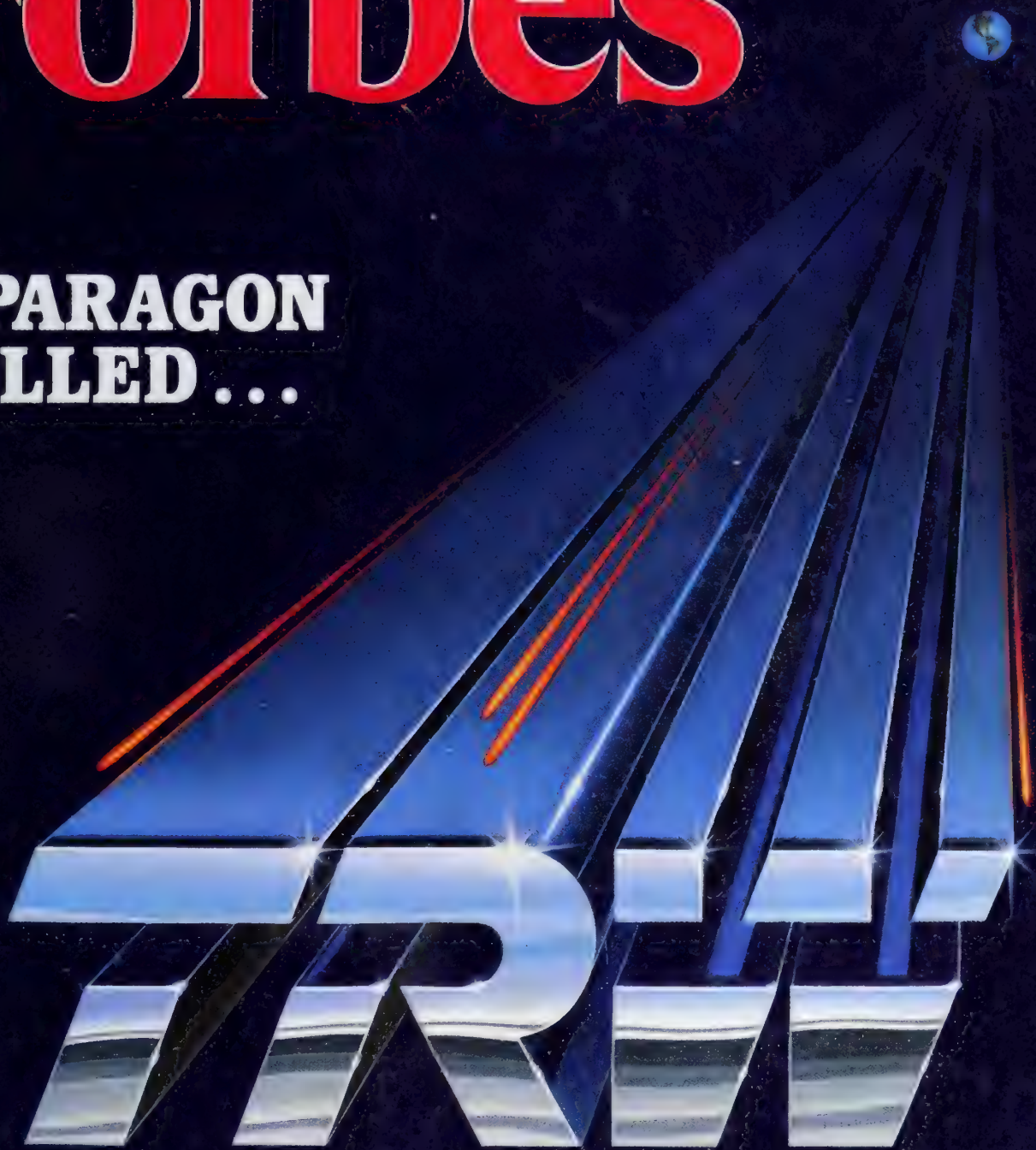
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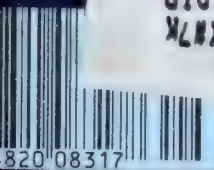


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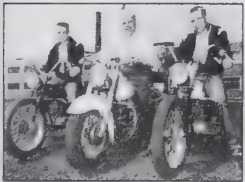
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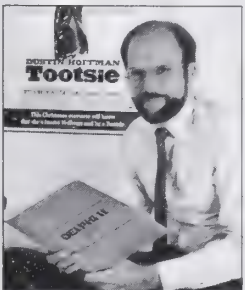
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Cover Illustration:

Roger Metcalf

Forbes (ISSN 0015 6914) is published biweekly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription \$36 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011. Copyright © 1983 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

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Hot issues and cool thinking

We are barely halfway through 1983, and already more capital has been raised through new stock issues this year—more than \$3.3 billion—than was gathered through new issues in all of 1972, the previous record year. Beware of any single generalization that seeks to render the meaning of all this bustle. Three separate stories in this issue of FORBES deal with the phenomenon. Each in its way is bound to offend some article of faith the generalizers propagate.

Have you read elsewhere that there is a decidedly better tone to the kinds of companies now going public for the first time, that they are better seasoned and, therefore, better risks? We commend Contributing Editor Richard Phalon's roundup, "Wall Street preemies," to your attention. Page 40.

Are you convinced that it's always the public that gets fleeced when a hot new stock hits the market? Check out Tom Murphy's Venture Capital column. Page 172.

And if you cherish the notion that behind every high-technology new issue there is a brilliant scientist with a belly on fire, think again. There may only be someone, with a nimble mind and a gift for packaging, watching all the action and saying to himself, "I can do that." Page 36.

No single generalization applies to the current ferment in new issues, we were just saying, but there remains one truth: A true bargain, like a good man in the old song, is hard to find.

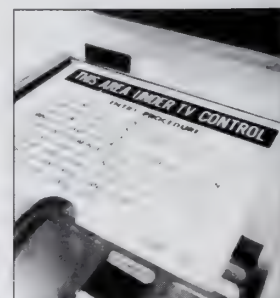
No sex or violence, alas

"Why are you always knocking someone?" runs a classic complaint about the American press. "Because we don't run stories about the day they delivered the mail," runs a standard rejoinder. The cover story in this issue defies both clichés. There, Executive Editor Jim Cook chronicles the management of a company called TRW quietly and profitably delivering the mail to customers and stockholders, to the benefit of the nation at large, for close to 50 years.

Stories of this kind are among the hardest to report and surely the hardest to write convincingly. No sex or violence—the path of the financial journalist is hard—no confrontations in the corridors, no blood on the boardroom floor, no raids, no rescues. But the absence of high drama is compelling in its own way. With a remarkable continuity in management at the top, just four CEOs in 50 years, TRW has journeyed from the industrial heartland to outer space and, literally, beyond the solar system. Page 102.

Chase Manhattan's future

The Chase Manhattan Bank, one of America's great financial institutions, has had more than its share of trouble in the financial turbulence of the past ten years. More than a dozen former and current top executives of the bank, including retired chairman David Rockefeller, recently submitted themselves to frank and occasionally painful interviews with Associate Editor Priscilla S. Meyer. The Chase men, understandably, sought to stress the bank's progress, but they candidly confronted past weaknesses as well. The resulting story, in effect an insider's guide to the Chase's future, begins on page 32.



TRW security sign

Sheldon Zalaznick

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The option trap

Stock options to lure executives to new jobs or to keep them happy in old ones are back in vogue—but there's a catch if you are stationed overseas. Options exercised by Americans abroad can cost their companies big tax dollars, according to Hewitt Associates, the Chicago consultants. The trouble started when the Tax Reduction Act of 1981 changed "nonqualified" options, which were taxed on the date of exercise at a maximum 50% rate, into "incentive" options that are supposed to be tax-free. The idea, says Hewitt partner E. Webb Bassick, was to get managers to buy the shares and hold them. Most foreign governments, however, don't recognize these new U.S. laws, and tax gains on options as soon as they are exercised, often at rates of up to 80%. Traditionally, U.S. firms promise to protect foreign-based employees from extra foreign taxes, Bassick says. A \$2 billion company with, say, 100 option-endowed overseas executives, could end up paying \$1 million in foreign taxes annually if only ten managers exercised their options. "Of the largest U.S. corporations," Bassick notes, "more than 50% provide incentive stock options, and a vast majority have expatriate executives." The solution? One, Bassick says, is to "bank" options and allow them to be executed—at the same price—when the expatriates return home.

Promotion with a purpose

In its search for new funds, the Public Broadcasting Service relaxed its commercial guidelines a couple of years ago to allow companies to underwrite programs related to their products. "The only thing barred now is blatantly promotional or 'self-congratulatory' underwriting," says Karl Rosenberger, director of underwriting at Boston's WGBH, which produces about 30% of prime-time PBS shows. The new rule has paid off. PBS reports that at least ten programs shown nationwide this season were funded wholly or partly by firms with an interest in the subject matter, and more are coming up. Baxter Travenol, for example, is underwriting a 12-part former network medical series called *Lifeline*, to air this month. WGBH alone reports receiving \$3 million a year for such shows. The pioneer program was *This Old House*, on which developer Bob Vila demonstrates

home remodeling. Owens-Corning Fiberglas, which makes home products, came in with a \$375,000 grant in 1981 (now up to \$600,000) and matched that with outside print advertising for the show. It picked up a daytime Emmy this year and has about 7 million viewers. Other companies underwriting such product-allied programs include Fram Corp., Acorn Computers, Merrill Lynch, S.C. Johnson, Hospital Corp. of America and Timberland Co.

Talking to Tokyo

Japan's 2½-year program to open its telecommunications market to Americans has been a wrong number so far. "The process looks great on paper," says Colorado Democrat Tim Wirth, head of the House telecommunications subcommittee, "but the results are not there." Nippon Telegraph & Telephone, the world's second-biggest telephone company, bought \$48 million worth of U.S. gear last year, triple the 1980 figure but invisible among the billions NTT spends each year. Nor is the fault all Japanese, as many Americans insist. Wirth puts part of the blame on "less than aggressive companies" that, he said, won't spend \$50 on a workshop to find out how to sell to NTT. The Japanese are more sanguine. Hisashi Shinto, NTT's president, told a business meeting in Washington that the process of opening the Japanese market was "slow and difficult" but that Americans were "beginning to understand the system and appreciate it." Wirth concedes that the language barrier alone is "formidable" but points out that NTT is moving away from mandating specific designs and starting to use performance standards. Shinto also said that he would seek bids from foreigners even if the agreement with the U.S. runs out at the end of this year.

The fun-and-sun fleet

Television's long-running *Love Boat* gets at least some of the credit from ship operators for changes in the ocean cruise business. During the 1970s passengers tripled, to more than a million a year, and the 1983 total is expected to reach 1.7 million. The surge in short-run trips of seven days or less helps explain those numbers, but, significantly, 40% of cruise passengers now are under 35 and the share of those with incomes of



Cruise ship under way
Youth will be served.

\$15,000 or less has gone from 6% to 20%. These quick trips cost from \$160 to \$210 a day per person, and the package can include everything from bed-and-board to free or cut-rate air tickets. (By contrast, a suite for 80 days on the *QE2* can run \$275,000.) Ship operators dream of the potential out there—only about 5% of Americans have ever sailed on a cruise. By 1985 the number of ships in the fun-and-sun fleet, now about 100, is expected to increase by a quarter. While *Love Boat's* contribution is welcomed, the lines are trying to stress reality over fantasy. Diana Orban, speaking for the 24 members of the Cruise Lines International Association, warns, for instance: "The image can be intimidating. Not everyone looks that way in a bikini."

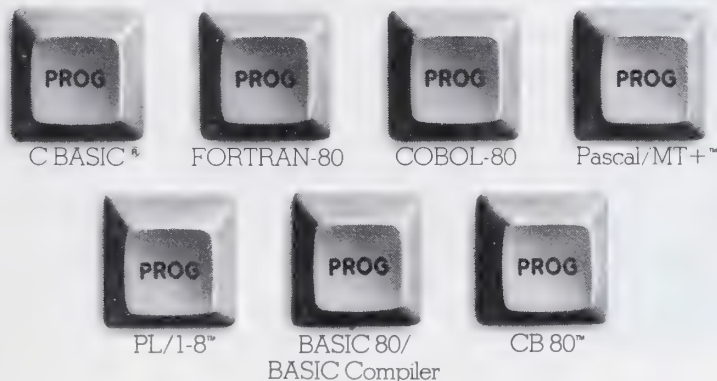
A home away from home

Saudi Arabia's orders to move all diplomatic missions from Jidda to Riyadh, the desert kingdom's capital, will cost U.S. taxpayers \$40 million for 86 new homes for officials and their families, plus \$51 million for a chancery office. "Costs in Saudi Arabia are just horrendous," Congress was told by William Slayton, the State Department man in charge of these things. Couldn't prefabricated houses

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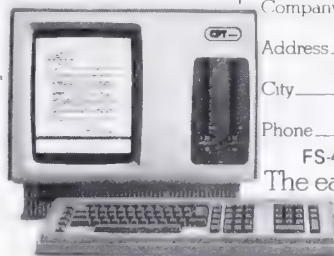
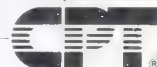
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Trends

be shipped for less than \$500,000 a copy? he was asked by one incredulous lawmaker. No, said Slayton; the Saudis and their German consultants were rigid on standards for the diplomatic compound. "The houses have to be designed to fit the lot," he explained. "You simply cannot place a standard house there." What's more, he added, Americans find so little to do in Saudi Arabia that they must spend most of their time at home. "Employees have to look inward, rather than to the community as a whole, for their activities," he said.

Get 'em early

As any alumnus knows, a letter from alma mater means one thing—money. Michigan State now has reached the ultimate in such dunning. At this year's commencement, the 5,258



Graduation day

A message from your president.

graduates got, along with their handshakes, a beribboned scroll in lieu of a diploma. (As is the rule in such large-scale send-offs, the latter will be sent on by mail.) Unrolled, the scroll proved to be a letter from the president, giving congratulations and telling his newly minted alumni and alumnae that their school needs money and would appreciate a gift.

The nonmartini lunch

The solo business meal once ate up 20% of corporate travel expenses, but it is fast falling from its place as one of the most expensive travel cost items. According to Travel Expense Management Systems, a PHH Group division, which tracks travel patterns for some 20,000 corporate employees, the typical on-the-road employee ate 24% fewer meals last year than in 1981,

and the firm projects that in 1983 the average such traveler will eat only 163 meals a year, 11.4% fewer than last year. "More and more companies are finding that travel expenses deserve no less of management's attention than other expenses that impact profit growth," says H. Robert Heid, director of the Hunt Valley, Md. travel consultants. He notes that most companies now instruct employees to charge food on a per-meal rather than a per-day basis. Employees' increasing desire to manage travel time and their concern about physical fitness also keep down the number of meals bought, he says. Heid says the average meal on the road costs \$6.97 (only \$1 more than in 1981) per employee, who spends about \$21 a day for a fast-food breakfast, a variety of lunches and a three-course dinner.

When plant gates close

American companies ought to try the Canadian way of shutting down plants, says William Batt Jr., an old Washington hand who is now a Labor Department consultant. When a U.S. plant closes, writes Batt in an article coming up in the *Harvard Business Review*, workers often are on their own. Shutdowns raise levels of depression, alcoholism, drug abuse, marital stress, child abuse, even suicide. In Canada, he says, things are different. Companies there, by law, must give advance notice of shutdowns, and then work voluntarily with unions, workers and Canada's Manpower Consultative Service to place employees in new jobs, often before the old plants close. In 1980, Batt reports, 365 Canadian company and worker groups signed agreements affecting 200,000 workers. Germany, Sweden, England and Japan, he notes, have similar programs. Legislation is unlikely in the U.S., Batt thinks, but some companies are trying volunteer programs, something he would like to see more of. Dana Corp., for example, closed a 1,600-worker Wisconsin plant in 1979 and located more than 3,000 alternative jobs, most unlisted. Job programs for closing plants, Batt says, should provide a financial safety net. "If Canadians can," he asks, "why can't we?"

One-man shows

Magazine advertisers may be glad to share audiences, but they dream of one-man shows. The publisher's answer is the single-advertiser magazine. One of the most successful of such publishers is the 13-30 Corp. of

Knoxville, Tenn. (it also puts out the nonexclusive *Esquire*), whose corporate operations are growing at 30% to 35% a year. Ralston Purina now is the sole advertiser in *Pet Care Report*, one of three new 13-30 magazines started last year and one of its 10 single-advertiser publications. Each runs from 15,000 to 2.9 million copies per issue, says General Manager Mike Collins, and appears from twice a month to twice a year. Single-advertiser clients include General Electric, R.J. Reynolds, Xerox, Nissan Motor Co. and Johnson & Johnson. In St. Paul, Minn., Webb Co.'s Creative Communications division puts out 13 publications sponsored by companies or associations that want exclusive exposure in their markets, and expects to start two more this year. Among its newer entries: Farmers Insurance Group's *Friendly Exchange*, a quarterly shipped to 4.4 million policyholders. "These publications are very effective devices to zero in on the best customers," says Webb's Tom Benson. Meredith Corp. (*Better Homes and Gardens*) says its custom magazines have grown 250% in five years and doubled last year. The latest one: *Health Picture*, a test magazine circulated in supermarkets for Miles Laboratories and a new vitamin line.

Multinational largesse

American multinationals give a broad range of aid to employees and their families in less-developed countries, says a new report by the New York-based Conference Board, and it is not simple altruism. The study of more than 200 companies in 12 countries (including Costa Rica, Egypt, Indonesia, Pakistan, Sri Lanka and Peru) says that the help is motivated by local laws, operating needs and plain public relations. Free medical exams were provided by 90%, and by 25% for employees' families. Nearly 50% operated clinics, and about 25% (most agribusiness firms) ran hospitals. About half provided grants to colleges and about 25% to secondary schools in countries where they operated. Nor was this all in-house. Fewer than half of the 15,000 students at 50 schools built in Indonesia by Caltex, the board says, are children of employees. About two-thirds gave scholarships for employees and their families, and a third lent engineers and other specialists to local schools as teachers. Nearly two-thirds also provided housing aid, usually free or subsidized homes, and half offered mortgages at less than market rates.

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Follow-Through

How white the knight?

Earlier this year Albert Tahmoush, the 61-year-old chairman and chief executive of insurance broker Frank B. Hall & Co., talked about his bewilderment over the way companies in totally disparate fields kept wanting to take over his business. "If everybody wants to get into the service act," he said, "who in hell is going to produce the goods?" (FORBES, Feb. 28).

Indeed, Tahmoush had plenty to worry about. A year or so before, Miami's Ryder System, the truck leasers, started to buy what eventually be-



Hall's Albert Tahmoush
A rescuer at last?

came a 9.2% stake in Hall. Ryder said it intended to increase that to more than 15%. Evidently, a takeover was in the making. Tahmoush fought back. He bought 92% of Jartran, a rival truck renter founded by James Ryder to compete with the namesake firm he had once headed. Jartran then filed for Chapter 11 and the whole deal was read as a ploy to block Ryder with antitrust charges if it persisted in trying to get Hall. Sure enough, Hall promptly filed an antitrust suit against Ryder, and the Miami firm countered with one against Hall.

Last month Tahmoush apparently found a rescuer. Ryder abruptly sold its 1.1 million Hall shares for \$34.1 million to New York financier Saul Steinberg's privately held Reliance Group Holdings. Reliance described the purchase as simply an investment; Ryder said it sold because it had "more interesting opportunities." Tahmoush says he accepts Reliance's word, adding that Ryder had sold at a price that just about covered its costs of holding those Hall shares.

The unanswered question: How white a knight is Saul Steinberg? True, he is in a service business and Reliance is already half-owner of a smaller insurance brokerage firm, E.H. Crump, but Steinberg has never been shy about takeovers. (He once tried it with the multibillion dollar Chemical Bank.) His move into Hall, one of the few independent brokerage outfits left, is bound to relight the speculative fires. The precedent is certainly there. Last October, in one week, Combined International said it would lay out \$109 million to get Rollins Burdick Hunter, the insurance brokers, and Transamerica Corp. said it was taking over Fred S. James & Co. for \$300 million.

The vanishing secretary

Secretaries make the world go round, Laurence J. Peter, the professor of Peter Principle fame, wrote back around 1970. Because women were discriminated against, he said, they couldn't rise to the level of their own incompetence, as males tended to do; thus their efficiencies saved their bosses from themselves. "But for how long?" FORBES asked five years ago (Dec. 11, 1978). Women who might have become first-rate secretaries were becoming telephone lineworkers, construction hard hats, mounted police, Air Force pilots, Marines, business executives and managers.

Up to 60,000 new secretarial jobs were expected to go begging in 1979, FORBES reported, and though salaries were rising at about 10% a year, the secretary shortfall was expected to reach 250,000 by 1985. To cope with the situation, employers were using temporary help, putting up with less-skilled secretaries or simply going without.

Since then the supply has increased somewhat. The Bureau of Labor Statistics reports there were 2.4 million secretaries nationwide in 1980, and last year it expected that number to rise to perhaps 3.4 million by 1990. Demand is now expected to be more modest than that, according to BLS economist Larry Drake. But there is still a shortage, he says. Moreover, the underlying problem—"the traditional image and low pay"—remain, according to Candace Louis of Professional Secretaries International, a secretaries' association headquartered in Kansas City, Mo. A nationwide survey by the PSI of more than 2,000 secretaries and 1,000 executives

showed that the average salary is between \$17,000 and \$18,000. "That's not a bad average for secretaries," says Louis. "But some PSI members still reported earnings as low as \$9,000 a year, and even the higher average compares poorly with many other professions."

The PSI survey also showed that only a third of secretaries under 30 wanted to continue in their careers; instead they aspired to supervisory and management posts. But two-thirds felt there were limitations in career advancement and status; and about a quarter of the women in this predominantly feminine calling felt discriminated against because of sex.

What would make a secretary's job more appealing? About 86% of the women in the PSI survey mentioned higher salaries. Drake of the BLS agrees: "With women going into other fields, the number of qualified people will decline until employers are willing to pay more."

Splash! Splash!

Traditionally—and logically—swimming pools and housing starts swim up and down the same crests and troughs. Last year, however, *FORBES* (June 21, 1982) reported a strong cross-current. For three years, with housing stagnating, pool starts had gone up 9%. In 1981, the home slump worsened, but backyard swimming holes were off only 2%, to 208,000. The reason: Gasoline prices kept Americans home, and the recession prompted them to improve their homes.

In 1982, pools did even better. According to the National Spa and Pool Institute in Washington, D.C., 105,400 in-ground pools were built last year, most of them residential, and another 110,000 were installed above ground. That was a falloff of only 3% for in-ground pools, despite their average cost of \$7,000 to \$14,000 and financing charges last summer of about 18%.

For 1983, bad spring weather pushed May sales down about 7% in the Northeast (just as it had in 1982), but in the Sunbelt May sales were up 17%. For the year as a whole, the Pool Institute expects a 5% to 10% increase. And the hot tub and spa craze continues, with sales of 100,000 to 120,000 a year. Demographics is one reason. "The population is working to our advantage," says the Institute's Judy Ramminger. "The baby boomers are now 19 to 35, and people who buy pools are increasingly moving into their adult buying years."

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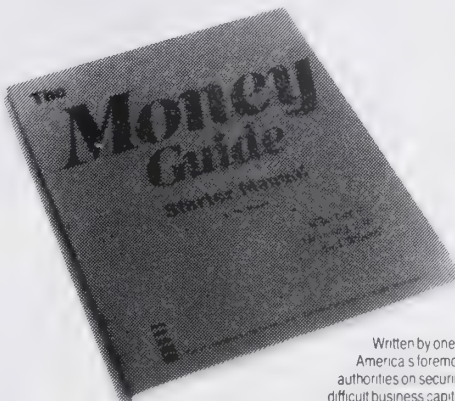
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MONEY!

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June, 1983

Readers Say

Don't live so long

SIR: The problem of sex distinctions in the setting of insurance rates and benefits (*Fact and Comment II*, June 20) arises from the blatant and persistent sex discrimination practiced by women in living longer than men.

I propose the establishment of a Sex Equalization Board. If a woman is found to be living beyond the established life span for men, the board would procure a cease and desist order.

—Joseph B. Diamond
New York, N.Y.

Looking ahead

SIR: Your editorial on the Synthetic Fuels Corp. (*Fact and Comment*, June 20) is remarkable for its unique common sense. Americans are endlessly wont to berate those in authority for bringing "too little, too late" to the solution of national problems. The need for America to have access to the solid resources that constitute 91% of our total energy reserves is too obvious—one would have thought—to require extended comment.

—Robert A.G. Monks
Director,
Synthetic Fuels Corp.
Washington, D.C.

Coal next victim?

SIR: Re Reader Gagle Jr.'s comment (*Readers Say*, June 6) that less nuclear energy will result in a boost to the depressed coal industry. The demise of the nuclear power industry may not be so fortunate for coal should the environmental extremism that has prematurely aborted nuclear energy be redirected at [coal].

—Michael B. Gardner
Manager of Environmental Services,
Horizon Coal Corporation
Zanesville, Ohio

Fatal conceit

SIR: Economist Barry Bluestone (*As I See It*, June 20) either has amnesia or is woefully oblivious when he declares government energy regulations successful. They created uncertain supplies, costly consumer lines (only in America) and discouraged domestic production.

When the controls were finally removed, we had an oil glut, falling

prices, and a fragmented "cartel."

Bluestone says the government must temper the market because the price system doesn't say how fast changes should occur. What a laugh! Does he really expect better information from the necessarily small clique that would call the shots under Bluestone-style planning? Here we have what F.A. Hayek calls the "fatal conceit."

—Sheldon L. Richman
Washington, D.C.

That and a token . . .

SIR: Re MSF's delightful piece on honorary degrees (*Fact and Comment*, June 20). When I received one, an old recipient told me, "An honorary degree is like the curl in a pig's tail—nice to look at but adds nothing to the weight of the hog."

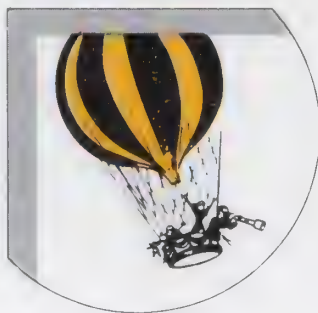
—James L. Robrbaugh
Seattle, Wash.

Colorful humor

SIR: I take it as further proof of the Chinese sense of humor (*Fact and Comment*, June 6) that they even got the colors on the balloon correct!

—Van Zandt Williams Jr.
Vice President for Development,
Princeton University
Princeton, N.J.

I, too, would like to think that the use of Princeton's colors for the balloon on the cover of that Chinese travel guide was not a coincidence!—MSF



Healthy solution

SIR: A comment on the job loser losing his health insurance (*Fact and Comment*, June 6). What we all need is portable health insurance. Basic parameters, like deductibles, could be legislated. If a worker changes employment, he simply takes his own

plan to his new employer and shares in the payment of premium with his new employer.

—Paul R. Zietlow
Director of Training,
The Paul Revere Cos.
Cedar Rapids, Iowa

SIR: Why can't insurance companies add job loss protection as a rider to group health plans?

—Neil S. Hiltunen
North Hampton, N.H.

SIR: How is the loss of health insurance by job losers worse than for the thousands who work for small companies which provide no health insurance in the first place?

—L.G. Mumford
Owensboro, Ky.

Schumpeter and Keynes

SIR: The article comparing Joseph Schumpeter and John Maynard Keynes (*May 23*) was one of the most scintillating and rewarding moments of reading I've shared.

—Thomas S. Haggai
High Point, N.C.

SIR: An awful lot of policy is being put under Keynes' tent, much of which I think he might very well deny. Also, his theory was developed in a period of depression and relates principally to that economic cycle.

—William F. May
Dean,
Graduate School of Business
Administration
New York University
New York, N.Y.

Surpassing the Joneses

SIR: We consider our record to be far better than "only [keeping] up with the competition" since managing the Over-the-Counter Securities Fund after Ralph Coleman's untimely death in 1980. For the period of our management through May 27, the fund has had a total return of 64%, better than the unmanaged NASDAQ Composite of 49.9% (principal only) and the total return of the S&P's 500 of 51.6%.

—Duncan M. McFarland
Senior Vice President,
Thorndike, Doran, Paine & Lewis
Boston, Mass.

Don't overlook a copier maker that's bigger than Xerox."



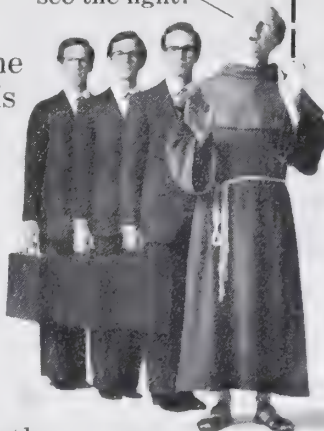
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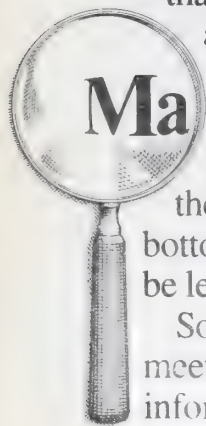
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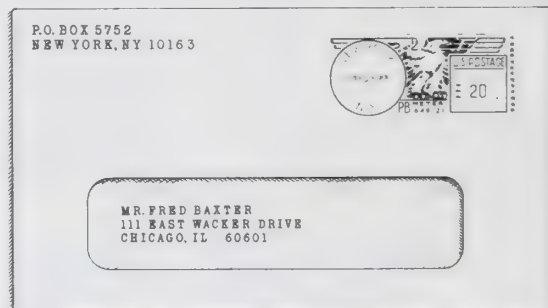
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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

MESSRS. FELDSTEIN, REGAN—ARE YOU LISTENING?

MSF: We read in the papers that some of the people who give you economic advice are talking about the necessity of slowing down the money rate and increasing interest rates so that the recovery doesn't get out of hand. I hope they're not saying the same things to you.

President Reagan: It's just come to my attention that that's going on. No, that's not my view at all.

MSF: I don't think we need to worry about the rate of recovery, about snuffing it out because it's getting out of hand.

President Reagan: No. Not at all.

MSF: It's a healthy one . . .



(l. to r.) President Reagan, MSF, MSF Jr.
Conferring in the Oval Office.

President Reagan: Yes.

MSF: . . . and it's going to progress. But it's alarming to read that these people around you think the recovery's out of hand already.

President Reagan: Well, those are those usual unnamed sources, White House sources. I don't know whether they even exist. I certainly don't know who they are, or they wouldn't be White House sources anymore.

MSF: But, you're not in favor of a return to high interest rates.

President Reagan: No. And I'm not in favor of the things they're talking about on the Hill of wanting additional tax revenues. Right now we've got a recovery going. . . .

"DUMP BUSH"ERS

are whistling Dixie.

FOR EVERY BIG U.S. PROBLEM, THE U.S.S.R. HAS TWO

Outside of some competency in its military, Russia's bogged down with its manufactured output, its services and its distribution operations. To dig out, Andropov & Co. are trying to graft individual incentive onto their system. But such creeping capitalism inflames the old ideologies, so the new Head sits on a still-shaky neck.

France expels 47 KGB agents, Iran another batch, and Norway the Russian military attaché; Japan expels a Sovi-

et diplomat for trying to steal computer-company data; the West German electorate repels the nuclear-freezers; Poland remains in turmoil; the Polish Pope's alive as ever, despite Bulgarian-agent bullets; U.S. missile-equalizers for NATO remain on schedule; much of Afghanistan remains unenslaved; the faint threat of peace in the Middle East discombobulates the Kremlin.

So we're not the only one with problems.

BECAUSE LAND ACQUISITION BY THE FEDS HAS SLOWED

many have howled that this Administration cutback is wickedly depriving the country of huge and desirable additions to the public domain.

Utter baloney—at least, almost. Cases can be made for adding bits and pieces here and there to federal lands.

But do you realize that right now the U.S. government owns 770 million acres—34% of all the land that constitutes the United States? For instance, the Feds own:

89.5% of Alaska

86.1% of Nevada

63.8% of Idaho

44.0% of Arizona

63.6% of Utah

35.5% of Colorado

52.5% of Oregon

33.2% of New Mexico

48.7% of Wyoming

32.9% of Dist. of Columbia

46.7% of California

30.0% of Montana

The American dream, since this land became free, has been to own a piece of it. Millions do not, and even more millions hope to.

For the Feds, too much, already.

"READERS DON'T TRUST US"

In a searing, succinct summary of Why, Kansas City's *Star* and *Times* ombudsman, Donald Jones, concludes: "Readers don't trust us—newspapers, radio, television, magazines. They don't trust any of us."

Interviewed by *Time* magazine's Thomas Griffith, Jones lists reasons why. Some of them are:

"INACCURACY. 'Errors of fact do more to undermine the trust and confidence of readers than any other sin we commit.'

"ARROGANCE. Readers 'see reporters and editors trying to set themselves up as a privileged class. What they can't understand is the extremes to which many report-

ers and editors will go to keep from saying, 'We were wrong.'"

"UNFAIRNESS. 'Readers are quick to pick up on hatchet jobs. They don't like them.'

"DISREGARD OF PRIVACY. Jones does not find much concern about the privacy of public figures. Readers do resent disregard for the 'feelings of individuals like themselves who, for no fault of their own, are thrust into the news. They resent photos that show grief-stricken families or that hold someone up to ridicule.'"

To which most all of us in this business must confess, mea culpa.

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These two small newspaper ads are aimed at a very tiny number of *New York Times* readers. Obviously, the humor of the RCA headline is totally unintentional. Probably 99% of those who see the ad have no idea what MIS stands for, and they can read the whole thing and still not know, but those at whom the advertisement is aimed do.

Wouldn't you agree that the New York Racing Association's offer is as wittily captioned as any you've seen? If that stuff can be moved (yet again), this ad will for sure do it.

OUR HORSES LEAVE A LOT TO BE DESIRED.

250,000 cubic yards of "Thoroughbred" manure.

If you're a large scale manure user, then we've got a very good offer for you. Each year our horse horses produce over 250,000 cubic yards of high-quality manure. These Thoroughbred horses are some of the best fed in the world, and if you're often asked, you know what that means. We are now seeking for long-term agreements with manure users. We have the quality, and the quantity of manure you're looking for.

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Whether you're a former mushroom grower, fertilizer packager, or a quick-witted entrepreneur, call us, and we'll work out a deal you'll like.

THE NEW YORK RACING ASSOCIATION INC.

SO WHICH BURGER'S BEST?

Spurred by all that flap and flak about "flame broiled" Burger Kings, by McDonald's rejoinder that 11 million people a day can't be wrong, and by Wendy's "fresh rather than frozen," we decided to have our own taste-off. A group of *FORBES* staffers sat around a table that contained color-coded platters of bite-size bits of just the three brands of hamburgers, plain; three similarly unidentified bowls of french fries; eight glasses of water, eight pads, eight pencils.

The eight palates, testing on a scale of one to five with

the most points the best, came up with these results:

Twenty-five points for the Burger King hamburger, 22 for Wendy's and 16 for McDonald's.

On the unadorned french fries, the tally was 26 for Wendy's, 18 for Burger King and 15 for McDonald's. So, overall, it's 48 points for the Wendy combo, 43 for Burger King and 31 for McDonald's.

Would that suggest that perhaps McDonald's sales lead is a result of having over 7,200 locations to some 3,000 for Burger King and about 2,500 for Wendy's?

IT'S ALWAYS WORTHWHILE

making others aware of their worth.

PEOPLE'S WEALTH AND WORTH

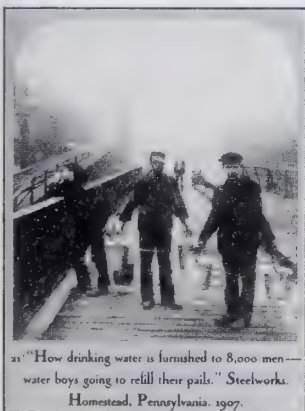
are not necessarily related.

SOME SUMMER PICTURE READING

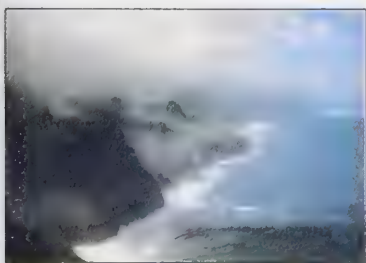


poration, is a poetically moving exception. It's an extraordinary harmony of first-rate photographs combined with most apropos bits and pieces of text.

● **Greenwich Village, a Photographic Guide**—by Edmund T. Delaney, Charles Lockwood and George Roos (Dover Publications, \$4). This really does give the picture of New York's most storied area (other than Harlem). As denizens of Greenwich at 60 Fifth Ave., in a building designed by John Russell Pope, we are enthusiastic Village partisans.



to depict America from 1860 to 1945. As he says, few of us can resist looking at the pictures before we read—if we read—the text in such a volume. Though the captions often "give us information unavailable in the photographs themselves, yet, do the pictures in fact tell us the same thing?" The answer, shown here, is often No.



pics are from the air, with each section containing a group of comparable views taken four or more decades earlier. For someone into Hawaii, this is a different aloha.

● **Missouri**—by Bill Nunn, (Centerre Bancorporation/Lowell Press, \$20). Most corporate-sponsored books are expensive insults to the meaning of the word book. This one on Missouri, made possible by St. Louis-headquartered Centerre Bancor-



The Forbes Building

● **Bearing Witness**—by Michael Lesy (Pantheon Books, \$27.50). In the Library of Congress there are so many millions of photographs that numbers of them are as yet uncounted, never mind cataloged. In a two-year rummage through more than a million of them, Michael Lesy has painstakingly selected 287

● **Above Hawaii**—by Robert Cameron (Cameron & Co., \$19.95). Hawaiian picture books are as prevalent as Waikiki Beach postcards. But this one has a different angle. The

● **Hungarian Memories**—by André Kertész (Little, Brown & Co., \$55). In these life-filled, unself-conscious photographs, Kertész captures the peaceful feel of Hungary before World War I, and then the rending impact that war wrought on Hungarian souls and villages.



Georgia O'Keeffe



Anastasia and the Tsarevich

one sees a seemingly ordinary, "typical Edwardian family pursuing the pleasures of the privileged classes: walking in the country, playing tennis, sledding in Russia's winter snows, shooting stags in Poland, taking tea, and picking berries in the forests of the Crimea and on the Baltic shores." In such photos the bloody end of 300 years of the Romanov Russian autocracy is nowhere in sight.

● **Zany Afternoons**—by Bruce McCall (Alfred A. Knopf, \$25). Bruce McCall is indisputably the genius of the sophisticated Way Out. His brilliant illustrations reduce to hilarious absurdity the pomposity of so much of the hard sell that assails all our senses, including common. *Zany Afternoons* demolishes innumerable spurious icons of materialism.



● **Alfred Stieglitz: Photographs & Writings**—compiled by Sarah Greenough, Juan Hamilton (Callaway Editions, \$75). One hundred years ago Alfred Stieglitz bought his first camera and is now widely considered preeminent in establishing photography as an art form. Maybe it's because so

● **The Romanov Family Album**—by Marilyn Pfeifer Swezey (Vendome Press, \$25). Extraordinarily candid pictures of the last Tsar, Nicholas II, and his family. Many taken by a close family friend, many taken by the Tsar himself. Looking at these intimate snapshots,



Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Such a Sad Miscall

Notwithstanding its preeminence as the national metropolis, Washington will probably never be a great city. The more substantial part of its population is migratory; the machinery of government is too simple, and the points of its operation are too widely dispersed to bring any great and constant expenditure of the public revenues within its limits. A fertile territory, or a convenient seaport, will combine more attractions than the artificial establishments of a metropolis. The true capitals of the United States are, and always will be, the great commercial cities.

—S.G. Goodrich, *A System of Universal Geography*, 1832, in *Antiques*

Suicide Watch

"When we come up against Harvester, there isn't any contest," an East Coast dealer for a competitor said. "They blow us right out of the water. If we get \$7,000 assistance (from the factory in cutting prices), they'll come up with \$11,000. My salesmen are going out of their minds. I'm yelling at them every day. I don't know what to do." Another Eastern dealer adds: "It's hard to keep your ship afloat when you're being beaten to death by someone who's committing suicide."

—Sue Shellenbarger, *Wall Street Journal*

Le Grand Chutzpah

In President Mitterrand's view, the American refusal to increase taxes,

and not Socialist blundering, is "a cause of worldwide disequilibrium." After years of blaming his recession on our recession, he is now blaming his recession on our recovery.

That takes *le grand chutzpah*. The reason that capital is flowing out of France to the U.S. and other countries has little to do with deficits or interest rates and much to do with the desire of people to hold on to their money: American free enterprise is stable and France's Socialist economy is shaky, and money flows to those places where risk and inflation are low.

—William Safire, *New York Times*

Sweet Summer Fare?

Toasted termite tidbits, caterpillar crunchies or french-fried flies? Whether we willingly choose such insect grub, most of us inadvertently eat hundreds of insect fragments every day. The Food & Drug Administration allows up to 20 drosophila fly eggs in a glass of tomato juice and 75 insect pieces in a two-ounce serving of cocoa. Frozen broccoli may have up to 60 aphids, thrips or mites per serving. "It's impossible to eliminate all insects from food," says Cornell University entomologist Edgar Raffensperger.

Roasted termites are sought-after treats for many Africans; steamed giant waterbugs are prized in Laos, as are toasted stinkbugs in Mexico. Ants are served with a sauce in Brazil and with curry in Thailand, and crickets are seasoned and steamed in banana leaves in Indonesia. Commonly eaten insects include bees, caterpillars, cicadas, flies, grubs, lice and silkworms.

Though most Americans cringe at the thought of eating such fare, we don't think twice about devouring an ordinary hot dog whose ingredients may include bull or hog scrotum, brains, lips, eyes, snouts, tail meat and stomachs. "Our aversion to certain foods is dictated by customs and habits," Raffensperger asserts. "Many insects are delicious and are higher in protein, calories and fat than equivalent amounts of beef."

—Susan S. Lang, OMNI Publications International, 1982

If I had only known how he would end up, I'd have been nicer to the guy.

—Virginia Mayo, talking about her former costar at Warner Bros., Ronald Reagan, in *Gentlemen's Quarterly*

Pure Chance

Paul Gauguin and Tahiti have been closely connected in popular imagination for more than half a century. The only comparable case of such complete identification of a man with an island is perhaps that of Napoleon with St. Helena. It is rather ironical, therefore, to have to begin a book devoted chiefly to Gauguin's life in Tahiti with the assertion that it was pure chance which took him there in the first place, and that the momentous journey was not even his own idea.

—Gauguin in *the South Seas*, by Bengt Danielsson

Dreamy Letter

The thing that bothers me most, I suppose, is that if you give twenty-five dollars to a school or a college or some good cause, they'll turn around and spend fifty dollars trying to get you to give more. . . . I got to thinking about the kind of letters I wish I'd receive and never do. I had to write [this] myself.

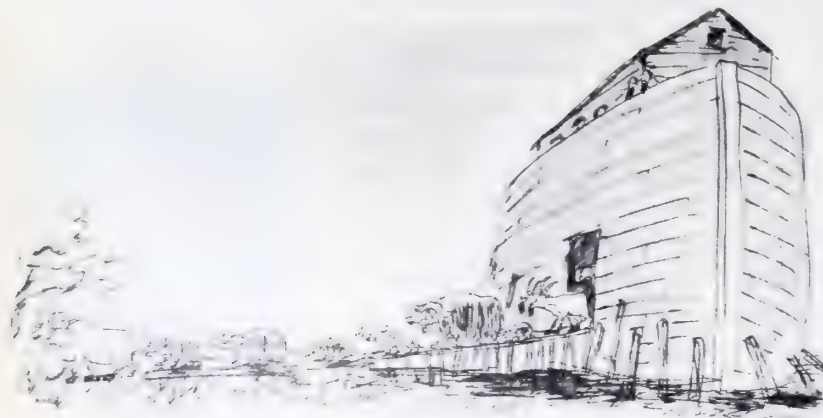
Dear Classmate:

Just a note to tell you there won't be any annual fundraising drive this year. Because of the warm winter, the University's fuel bill was less than expected and, by firing some of the dead wood on the faculty, they've been able to stay way under budget and won't need any money.

Sincerely,

Ham Davis, Class Secretary

—A Few Minutes with Andy Rooney, by Andrew A. Rooney



Drawing by Modell. • 1983 The New Yorker Magazine

"It was O.K., I guess, but forty days and forty nights was a bit much."

ALLIANCE



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Motor Trend experts judged Alliance the way a car buyer would. On styling and design, quality, comfort, performance and dollar value. Which helps explain why Renault Alliance is already outselling 61 of the 5 cars built in America.*

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*Automotive News report of 1983 calendar year sales thru April.

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RENAULT

THE ONE TO WATCH



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As one of the nation's leading underwriters of tax-free bonds, Kidder, Peabody is in a unique position to offer a vast selection of securities to investors. Whether they're seeking more interest, or more security.

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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief



PRESIDENT REAGAN UNDERSTANDS

the true catalyst of the Japanese economic miracle better than most. In response to a question on whether he thought the U.S. government should have a national plan for our high-tech efforts à la the Japanese, the President told FORBES: "Well, no. I know there has been a great deal of talk about the government-business relationship in Japan. I think, very simply, one of their greatest advantages is the much higher personal savings rate of the Japanese people over ours, and the pool of capital that they've got available there that can be used for investment."

He's right. Japan's high rate of saving is why business has access to cheap capital, and why the government can routinely run budget deficits proportionately several times our own without "crowding out" anybody.

What's overlooked by many in this country is the source of this phenomenon. The Japanese had their supply-side revolution some three decades ago, when the government adopted significant cuts in income taxes along the lines of Reagan's 1981 reductions, and levies on dividends and interest were virtually eliminated. Additional supply-side tax cuts were enacted over the next 25 years.

The Bank of Japan, unlike our Federal Reserve in 1981-82, didn't respond to those reductions with a catastrophic tightening of credit, which would have mitigated their

beneficial effects. The U.S., on the other hand, was captivated after World War II by the Keynesian notion, born of the Depression, that saving money was not good for the economy. Putting aside a portion of one's income in a bank or a bond or a stock was "sterilizing purchasing power."

That's why we got absurdly high tax rates on personal income.

"Rich" people, economists reasoned, had a "higher propensity to save" than those with lower incomes. To prevent the relatively well-to-do from letting too much of their income go into the great black hole of savings, government would take it away via the income tax and spend it for them, thus preventing economic stagnation.

The losers of World War II grasped the silliness of such thinking more than its winners did. Keynesian notions were least influential in Japan and Germany, and strongest in the United Kingdom and the U.S. The level of savings in Germany and Japan has been high, while we and our British cousins are routinely at the bottom among industrial nations in this category.

Democrats want to limit the mild income-tax cuts enacted in 1981.

The Japanese experience would suggest the opposite, that we need steeper reductions in our levies on income.

WHILE ON THE SUBJECT OF SAVINGS AND CONSUMPTION . . .

A growing number of economists now realize the importance of capital formation to stimulate long-term economic growth. But one type of solution proffered by Reagan advisers, as well as others, is useless.

It involves various schemes to tax consumption heavily via a stiff sales or value added tax. By discouraging consumption, they reason, people will save more and the economy will benefit from increased capital formation.

These people are turning Keynes on his head—it's all right to earn money as long as you don't spend it. Instead of punishing savings, we must now redress the balance by punishing consumption.

What these worthies have never grasped is that one man's consumption is another's capital formation. When

you buy something, the seller is presumably making a profit. The seller's income increases, which means he can save more.

If people are deterred from spending their money, who's going to invest to make the goods and services people are now supposed to forego? Business doesn't produce for a nonexistent market.

How does one get the best of all worlds—high rates of savings *and* vigorous consumption? Stop punishing savers (i.e., do what the Japanese did), resist the temptation to whack consumers and design a sensible monetary policy.

Then you will see this economy turn in a performance over the next ten years that will be miraculous even by Japanese standards.

NOW YOU CAN PROVIDE A SUPERIOR IRA PROGRAM WHILE HARDLY LIFTING A FINGER.



Now that IRAs are available even to wage earners with pension plans, your employees are probably thinking about them right now.

And wondering if you are going to make available an IRA program to supplement their retirement income.

Realizing this, Metropolitan is ready to provide your employees with a program that requires minimal effort on your part and involves practically no cost to you.

It's Metropolitan's Metromatic IRA Program.

All you do is arrange for payroll deductions by your employees. Metropolitan's trained professionals will hold one-on-one interviews with your employees to discuss the benefits provided by an IRA

and assist them in establishing their own IRAs for amounts up to \$2,000. The administrative details will be handled by Metropolitan and, with your cooperation, the program will be communicated to your employees.

In addition, Metropolitan will provide a sound and attractive vehicle for the IRA contributions—the Flexible Retirement Annuity Contract.

All of your employees who are interested in providing for retirement on a tax-deferred basis will welcome this unusually beneficial IRA program. It features an optional provision that will continue payments to the employee's IRA in the event of total disability. It has flexible options which allow use

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Metropolitan, because of its vast financial and human resources, is equipped to serve a company of any size and in any location. Arranging for Metromatic IRA is a simple matter. Just contact your local Metropolitan office and ask to have a representative call.

This is a chance to make a favorable impression on your employees at practically no cost and with virtually no effort.



Metropolitan
Insurance Companies

METROPOLITAN REALLY STANDS BY YOU.

Life/Health/Auto/Home/Retirement

There is less inflation than you think

MINI AND MAXI MISUNDERSTANDINGS

CONTINUED GOOD NEWS ABOUT THE STRENGTH of the recovery has not calmed everyone's fears. Recent reports that inflation, as measured by the Consumer Price Index, may be on the rise caused several mini-routs in the bond market and even gave the oh-so-strong stock market a temporary tilt.

These fears are based on a misunderstanding. The CPI errs on the high side. The three major components—energy, food and housing—are giving off signals that the index is interpreting incorrectly.

With energy the error is twofold. The first problem stems from the recent 5-cent-per-gallon gasoline tax. The second relates to seasonal increases in gasoline prices in anticipation of stepped-up summer driving. The CPI picked up these changes and projected them forward. It failed to detect that the tax is a one-time thing and the price boost is temporary. "From a supply and demand point of view, there is really no reason to justify a continued increase on the energy items," concedes Patrick Jackman, who computes the CPI for the Bureau of Labor Statistics.

As for food prices, bad weather—especially severe storms in California—is largely responsible for the runup. Products posting the increases were early fresh fruits and vegetables. Meat and poultry items were flat. Now, as crops from other parts of the country come to market, the CPI food component will begin to ease.

Trying to get rid of one distortion created another

THERE'S EVEN MORE DISTORTION IN THE housing numbers. And, ironically, recent CPI revisions intended to eliminate this problem have only made it worse. Here's why: The CPI used to track monthly mortgage costs. When property values began to rise in the Seventies, this pushed the index up rapidly, even though these costs only affected people buying new homes. So the BLS substituted a rental equivalent number. But now home prices are stable, and the index is picking up rises in rents—even though most Americans live in single-family homes.

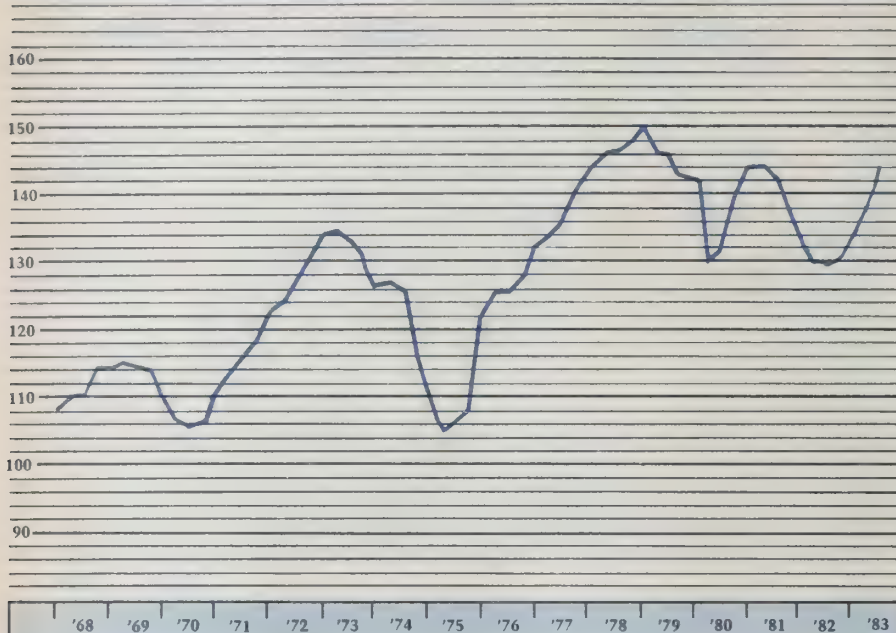
On the positive side, the CPI, being a measure of finished goods, does pick up unit labor costs—and they will fall well into 1984. That is much of the reason the index will post an annual gain of around 4% this year. Small as that is, of course, it still overstates the inflation rate, which will actually average between 2% and 3%.

Inflation's back has been broken

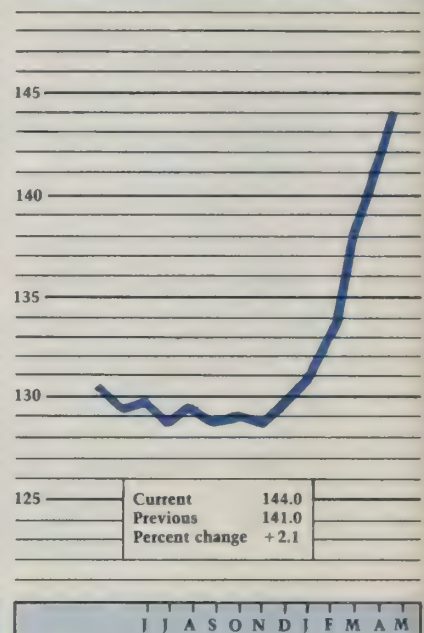
INDEXES TO THE CONTRARY, the back of inflation has been broken. The only thing to fear is the fear of inflation itself. That, in part, is preventing interest rates from falling as fast as they should.

The Forbes Index

Forbes Index



12-month close-up



Current	144.0
Previous	141.0
Percent change	+2.1

Keeping it up. The Forbes Index has run its string of consecutive advances to seven, registering a strong 2.1% gain. Good news is coming from both the business and consumer fronts. In fact, all of the indicators are flashing a bright green.

Industrial production was up 1.1% during the latest reporting period, following a 2% gain in April. New housing starts were up 27.7%. One reason consumers are

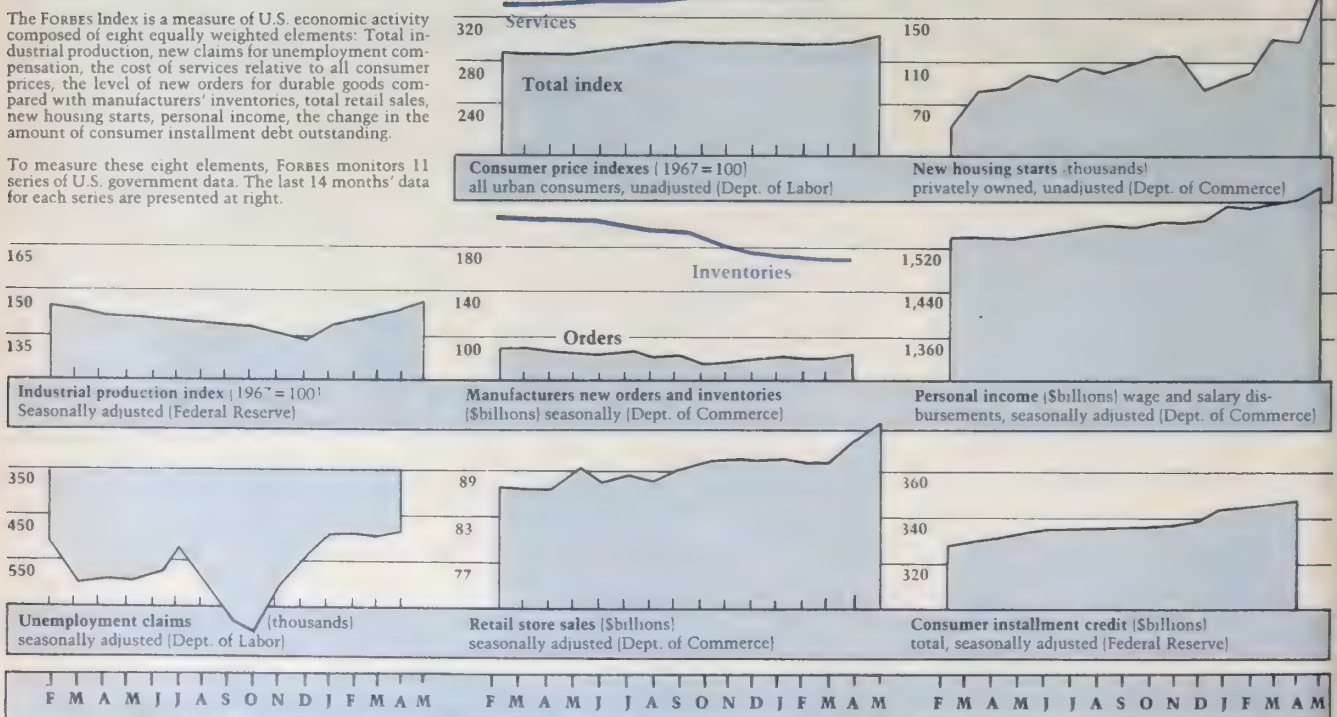
buying is a 1.6% rise in personal income, compared with a 0.9% rise a month earlier.

Consumers also were spending on items other than housing. Installment credit was up by 0.7% and that contributed toward a sharp 2.1% rise in retail store sales. Even the 0.5% rise in the Consumer Price Index was good news since it was small and is probably temporary, caused by a seasonal increase in gasoline prices.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.



Once again
the American frontier
is in the West.



THE COWBOY by Frederic Remington
Courtesy Amon Carter Museum, Fort Worth

Introducing a new 1 that's out t

Imagine a new company so big that its subsidiaries do daily business with over 9 million customers in a geographic area covering 43% of the continental United States.



The region served by Mountain Bell, Northwestern Bell, and Pacific Northwest Bell.

A company that employs 80,000 people, and manages over \$14 billion in assets.

A company that, from its first day in business, will join the ranks of the *Fortune* top 50.

Imagine all this, and you are imagining US West.

Making history in the American West. US West will be a new company, the result of the divestiture agreement between the Justice Department and the Bell System.

Out of this agreement, seven regional companies will be created — each independent from the others, from AT&T, and from the Bell System.

US West starts out

three well-established companies: Mountain Bell, Northwestern Bell, and Pacific Northwest Bell. For over 100 years, these companies have provided service to the American West and Midwest, and have paid dividends to shareowners.

It is out of this tradition of excellence and commitment to service that US West emerges.

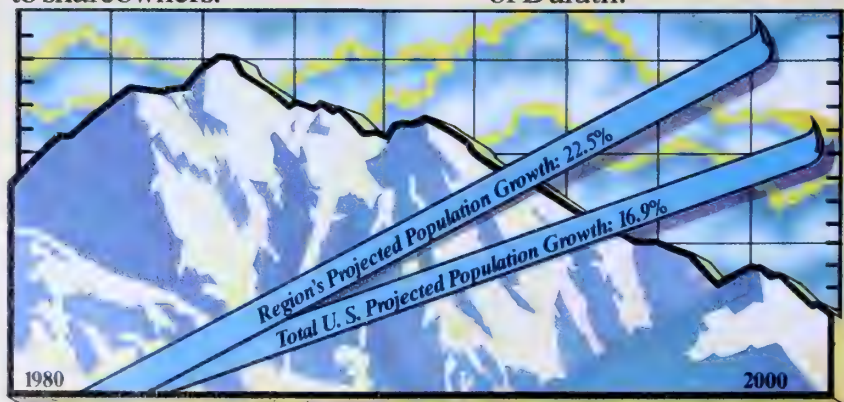
An exciting new company intent on becoming a leading competitor in the business of moving and managing information.

Once again, the American frontier is in the West. The romance of the American West is well-known.

But what is perhaps less commonly known is the uncommon magnitude of natural resources in the West today.

It is truly a region that has been blessed. Producing over 40% of the nation's food. 49% of the coal. 45% of the timber. And nearly all of the nation's gold, silver, and copper.

The West can also claim extensive reserves of gas and oil. And two active seaports: Seattle/Tacoma and Portland. Along with the inland port of Duluth.



Population, personal income and job expansion are all outpacing the national averages.

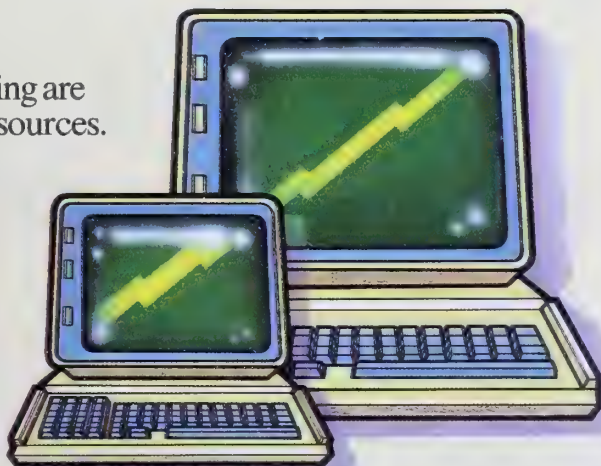
million dollar company in its spurs.

Even more exciting are the region's human resources. Population growth outpaces the national average by 33%. And personal incomes are growing 21% faster.

A legacy of strength. A tradition of character.

US West starts out with businesses that investors have always found attractive, not just for dividends, but for strength and stability.

And now the company will be free to build on that strength and stability as never before.



The communications industry is projected to double in size in the next five years.

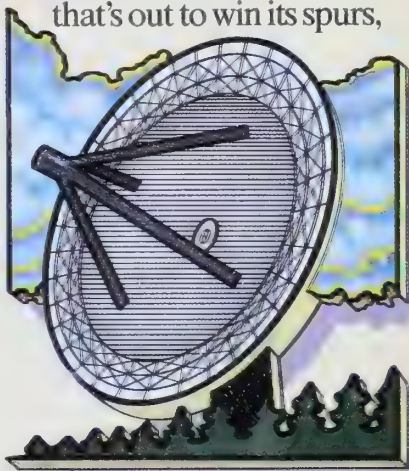
We will diversify into areas that match our managerial and technical strengths.

For example, a subsidiary to provide mobile communication service, a subsidiary to wire businesses for the Information Age, and a directory advertising and publishing subsidiary have already been formed.

Though some of our companies are regulated, we know that every aspect of our business is subject to competition. And

we intend to be a competitive enterprise.

If you'd like more information about the company that's out to win its spurs,



Linking 9 million customers to the Information Age.

write: John Trygg, Director of Investor Relations, US West, Quebec One Building, 5700 South Quebec Street, Denver, Colorado, 80111.



Five of the ten cities of great opportunity identified in John Naisbitt's book, Megatrends, are located here.



USWEST

His Japanese competitors routinely count on unfair subsidies, Hyster Chairman William Kilkenny complains. So, he reasons, why not get some unfair advantages of your own?

Do-it-yourself industrial policymaking

By Michael Cieply

BITTER FRUSTRATION HAS LATELY been the lot of Hyster Co. Chairman William Kilkenny. Hyster is the Portland, Ore.-based manufacturer of industrial lift trucks, the demand for which fluctuates with the wicked vicissitudes of the economic cycle. In 1979, flush times and a well-earned reputation for quality pushed Hyster revenues to almost \$700 million and net profits to \$63 million. Sales last year fell to 60% of that, just \$422 million, and profits fell to a bare \$7 million.

But more than recession accounted for such depressing numbers, Kilkenny insists. True, overall demand for trucks tumbled. But the unkindest cut of all was cutthroat competition from such low-cost Japanese producers as Komatsu and Toyota, which have captured about half of the non-Communist market for lift trucks.

Whence their edge? Partly their skill at building reliable, no-frills vehicles. But more significantly, Kilkenny argues, the Japanese rely on impossible trade restrictions, government cartels and—most galling of all—unfair subsidization. That, he says, is why “in some markets around the world, the Japanese sell at prices that we believe are under their unsubsidized costs.”

That's a powerful charge in its own right. Grounds, perhaps, for a countervailing duties case covered by the International Subsidies Code, adopted in 1980 under the General Agreement



Hyster Chairman William Kilkenny
Do something for us, or else.

on Trade & Tariffs. This is a mechanism that enables any Code signatory to defend domestic markets against subsidized foreign competitors.

But more than that, Kilkenny's complaint sums up all the arguments now being heard across the U.S. for a new “industrial policy,” a buzzphrase that seems to have replaced the old buzzword “reindustrialization.”

Kilkenny is clearly in no mood to wait while the debate goes on. He has chosen instead to write an MITI-like policy of his own. Last September, over the signature of President Wil-

liam Fronk, Hyster Co. addressed letters to five states and four sovereign nations in which the company builds trucks. The message: Foreign competition was such that some Hyster plants would have to close, others expand. Precious jobs would go first to whatever government bodies did the most to underwrite them. In effect, Hyster told these governments: Do something for us, or else.

That might not have gone down so well a few years ago. But today? By February of this year Hyster had garnered \$72.5 million in direct govern-

ment aid from various jurisdictions. The U.K. alone kicked in a reported \$20 million to ransom 1,500 jobs in Irvine, Scotland. At home, towns like Kewanee, Ill., Sulligent, Ala. and Berea, Ky. anted \$18 million, all told, in direct grants and subsidized loans to attract or hold about 1,960 jobs. In hard-pressed Portland, by contrast, a 54-year-old Hyster plant will close by next spring, despite Oregon's proffered investment of \$20 million from the state employees' pension fund.

Of all the solicitous governmental respondents, the big winner, if that's the word, appears to be Danville, Ill. With unemployment currently near 16%, this city of 39,000 will come up with roughly \$10 million in direct operating subsidies and training grants. This will be to keep the Hyster jobs it has and to gain an additional 992 new jobs by 1987.

There's more than a whiff of desperation in this. Picking at his breakfast in the half-empty downtown Sheraton, Jack Nichols, 42, Danville's economic development coordinator,

raised locally, to get Hyster to stay. No one is crazy about the idea. Says Mayor David Palmer: "Danville was always kind of slow to accept government programs. People said: 'We'd rather do it ourselves.'"

No more. Since 1981 roughly \$3.5 billion a year that goes to the states in block grant money—funds once earmarked for housing rehabilitation, sidewalk repair and so forth—has been freed for direct payment to private employers. Federal low-income grants also made possible the offers from Berea, Kewanee and Sulligent. "I signed the papers on an \$822,235 UDAG [Urban Development Action Grant] this morning," says Ted Boyett, part-time mayor of Sulligent, a town of 2,500.

In freeing funds for such purposes, Congress meant well. It thought it would help to create productive investments, not dead-end doles. But, in fact, it gives the U.S. a foretaste of the short-term rewards and longer-term perils attached to a politically inspired and bureaucratically managed

ter if it had not delivered incentives? Only if Kilkenny were prepared to ignore major concessions from Danville's Independent Forklift Builders Union and write off a facility—his largest—with a quality record unmatched by any of his southern plants. Tough call. The local union leadership thinks it bent over backwards offering concessions that may total \$10,000 per employee over the next three years to keep Hyster in Danville. "Would you be willing to walk down the street and hear people say, 'There goes the son of a bitch who lost Hyster'?" shrugs union President Terry Payne.

In the short run, obviously, government subsidies work, up to a point and after a fashion. In Hyster's case the \$12 million cost of consolidating all its manufacturing operations is covered. These public dollars are especially welcome at a time when Kilkenny is investing some \$160 million in both an economy truck line to fight the Japanese and in Hyster's first automated materials-handling equipment to challenge two entrenched U.S. competitors, Eaton and Clark.

But small, scattered interventions that put off the inevitable are one thing. Writ large and made national policy for the long run, they are an expensive way merely to delay the inevitable, not escape it. Britain spent billions over several decades trying to preserve jobs in its steel and auto industries. The billions are gone, as are many of the jobs. Since 1979 British taxpayers have been paying up to 50% of construction and equipment costs at Hyster's new Northern Ireland plant (*FORBES*, June 7, 1982). In the fullness of time, what is to prevent Hyster from seeking similar concessions in Danville and, if it gets them, doom the jobs near Belfast?

Meanwhile, of course, Toyota gains cost advantage by assembling in a single, highly efficient complex at Nagoya. Hyster's biggest problem isn't manufacturing efficiency but world overcapacity in industrial lift trucks. The jobs Hyster created with the help of U.K. taxpayers in Northern Ireland have now put in jeopardy similarly created jobs in Hyster plants in Holland and Belgium, factories that Kilkenny now laments as "duplicate pools of inventory and overhead." It was, in short, these foreign subsidies, on top of incentives from Kentucky and Alabama in the 1970s, that helped create the companywide overcapacity that Kilkenny must now shed.

Everyone knows a squirrel wheel works, but is that any way to run an economy? ■



Mayor David Palmer at Hyster's Danville plant
No longer shy about spending federal dollars.

says: "We couldn't afford not to make it happen." A once-prosperous downstate hub, Danville has known hard times before. Its deep-shaft coal mines, once a prime source of jobs, shut down a generation ago. These days, layoffs have run high at the GM foundry. Hyster's payroll has been especially hard hit, having dwindled from a 1979 peak of 2,104 to as few as 1,008 last summer.

Pay for new jobs or put old ones at risk? Hardly a choice, especially when you realize that townfolk are spending federal tax dollars, not revenues

"industrial policy."

Consider: Despite recovery, long-term demand for trucks is expected to grow at about 5% a year. Hyster, with positive cash flow and debt at a mere 11.4% of capitalization, must shift production to lower-cost plants. With or without subsidies, could the ancient Portland plant have survived that transition? Probably not, since its \$18 average hourly wage, compounded by high workers' compensation premiums, is 60% more than labor costs in nonunion Sulligent.

But would Danville have lost Hys-

The bigger they are, the Chase Manhattan Bank found, the harder they fall. Now the Chase is struggling to come back. But there are problems in the ranks.

Burdens of the past

By Priscilla S. Meyer

THE TRAVAIL of the Chase Manhattan Bank makes one of the great stories of American finance. Before its publicized troubles began ten years ago, the Chase stood at the top of America's banking establishment. California's Bank of America was the biggest American bank, of course, but it owed its size mainly to its millions of small customers. The Chase commanded the custom of individuals and of many of America's most powerful and prestigious blue chip corporations, not as a tradesman but as a peer. The Chase, after all, was dominated by Rockefellers.

Today, the Chase is the butt of competitors' jokes. The men at the

top have suffered embarrassment and even humiliation. Rumors of top management shake-ups all the way to the chairman's office are now heard inside the bank as well as outside. In discussing the Chase's troubles with *FORBES*, Willard Butcher, 56, the Chase's chairman, head bowed, fist clenched, says, "There is no question there was poor judgment." Butcher and the Chase's other top executives have little time for brooding, however. They're working hard and aggressively to restore the Chase's prestige and fortune.

They have the will to do so. But have they found the way? Can they answer with a persuasive "never again" questions that persist from their recent, troubled past? How, for

example, could banking's flagship, in 1974, have run up millions of dollars of losses in bonds, accounting for these and other transactions so poorly that in 1975 the U.S. Comptroller of the Currency accused it of running out of control? How could it, a few years later, have taken devastating losses in real estate, and then right itself, only to lose additional millions on loans to a government securities dealer and another imprudent bank?

George Champion, the crusty, 79-year-old banker who served as the Chase's chairman in its gilt-edged years from 1961 to 1969, thinks he knows the answer. "Nothing like that happened when I was chairman," Champion says in an interview. "When I was chairman we knew what was going on in every department. I went through all the departments to see and observe for myself. If any loan was \$5 million or over, I took it to the board after studying it personally."

Now that the Chase has set a new course with definite landfalls, however, Champion's answer seems seductively simple and may be inappropriate to the times. Today's Chase managers, young and old, find themselves straitjacketed by some of the tightest internal controls in American banking. These controls not only failed to prevent some recent debacles but, in more or less subtle ways, actually encouraged them. The burden of the past weighs heavy. The controls, amounting to double auditing on a grand scale, were put in place to constrain solo performances. They seem



Chase Chairman Willard Butcher at annual meeting with Thomas Labrecque, president (left), Michael Carlson, corporate secretary. **The bank has found the will to change, but has it found the way?**

likely to remain in place at a time when the bank must rely on brilliant performers to regain its stature.

What happened to the Chase begins after the retirement of Champion, who cared most about his conception of banking quality and—he says now, at least—little about growth. “We had no desire to be the biggest,” Champion says. When Champion retired, the Chase held \$19.3 billion in assets. Citicorp, with \$19.6 billion, had overtaken the Chase as the nation’s biggest, next to the retail giant of the industry, Bank of America. Champion had abhorred the idea of lending money to foreign governmental bodies. “If governments refused to pay,” he says, “how would we collect without an army?”

That attitude galled, to put it mildly, the Rockefellers. After all, in the days before OPEC, lending to stable foreign governments was hardly considered very risky. The family, whose holdings of Chase stock has remained fairly constant, holds an influential 2%, and so when David Rockefeller became president of the Chase in 1961, he ran head on into Champion. With typical precision, Rockefeller says now, in an interview with *FORBES*, “There was a difference of opinion in the bank, not a united front. Citibank had an international network in place way before we did. I feel that no way could we have hoped to move as fast as they did, but probably it would have made a difference if there had been no opposition within the bank.” When he succeeded Champion as chairman in 1969, Rockefeller moved quickly to create an international network. In domestic banking, the bankers who had surrounded Champion began to disappear and managers a generation younger took charge. “I was 36 and head of Asia, and I was the granddaddy,” recalls Frank Stankard, now executive vice president in charge of international operations. “I joined the Chase in October 1968 right out of law school,” says David Banks, now a senior vice president. “It was a very exciting time.”

Champion had roamed through the Chase looking over shoulders. Rockefeller insulated himself from operations. Herbert P. Patterson, Chase’s president in the early 1970s, rarely saw him. Patterson was dumped in 1972 and succeeded by Butcher. Rockefeller and Butcher “presented a really dazzling duo that worked together extraordinarily well,” says Joseph Reed, Jr., Rockefeller’s right hand man at the time and now American ambassador to Morocco.

The bank’s growth began to seem dazzling, too. From 1970 to 1974, the Chase’s assets, like those of other big banks, were inflated by petrodollar deposits, and nearly doubled to \$42.5 billion from \$24.5 billion. In that light, Rockefeller’s insistence on going international was paying off. Yet Chase lending officers, in an effort to invest the bank’s new trove, were chasing real estate deals. Other banks were to take baths through real estate investment trusts, but none bigger or more publicly than Chase. “By the

self with policy and strategy rather than day-to-day management. The need to insure against a repetition of the real estate mistakes persuaded him to turn considerable attention to restructuring management and creating a system of tight internal controls. Together, Rockefeller and Butcher drafted a “mission statement” that still stands as the Chase’s strategic plan. The statement stressed growth through high-quality lending to top-rated borrowers. The bank, its two most powerful executives declared, should cease attempting to be all things to all people.

The Chase then went on to drop additional hundreds of millions in its dealings with Drysdale Government Securities, the failed securities dealers, and through participation in energy-related loans with Penn Square Bank in Oklahoma. Some at the Chase insist that the solution became the problem, that the controls themselves fostered lending misjudgments.

“We’ve become a bank of internal salesmen,” a Chase official says. To overturn the presumption that a loan shouldn’t be made, lending officers have had to become advocates for borrowers. As the Chase began to make lending officers’ compensation more dependent on their loan volume, the tendency toward advocacy was further strengthened. Of the bank’s lending to Penn Square, Rockefeller himself says, “There were eager younger officers who saw this as an opportunity.” He concedes, too, that “if the bank errs on one side or another, there are too many controls.”

In its losses on Drysdale, the Chase appears to have suffered from rigidity in a different way. The sort of repurchase agreements that Drysdale was making weren’t categorized by the bank as loans at all. “Drysdale was the sort of business approved in principle, but the amounts of the transactions built up very rapidly,” Rockefeller says. “It was not followed as closely as if it had been a loan.”

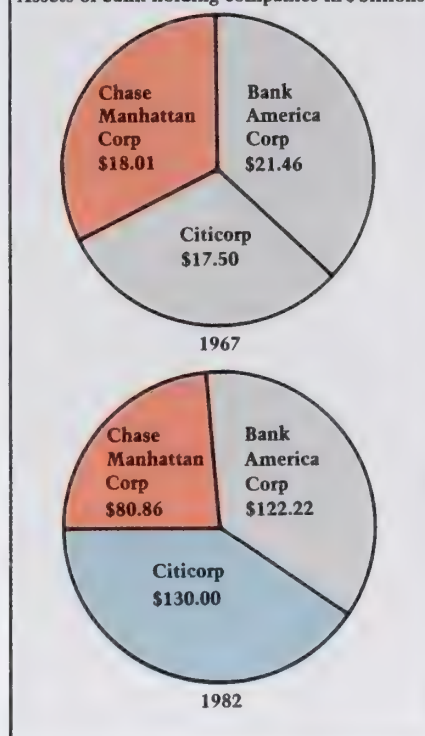
In the view of others, the lending controls have hampered the Chase in competing for the best borrowers. “I know other banks can act faster than we can or at least without the difficulty,” a lending officer says. “If we try to do something innovative we must knock ourselves out to get it through internally. You sense that the competition just doesn’t have to work that hard.”

Only ten officers were responsible for the Drysdale and Penn Square loans. The officers, including an executive vice president who reported directly to Chase president Thomas

Losing position

Relative to its two big rivals, the Chase Manhattan Corp. has lost ground for 15 years. The Chase has tried to achieve growth and quality, but has found it tough to manage either.

Assets of bank holding companies in \$ billions



time we realized what was happening, it was out of control,” says a Chase officer. In 1975, 1976 and 1977, the bank wrote off \$480 million and, later, wrote off an additional \$176 million on its real estate loan portfolio. From Rockefeller’s point of view, the losses in real estate patently proved the wisdom of international expansion. “It was an enormous effort,” he says, “but if we had not done that, I don’t see how the bank would have survived the real estate problems.”

During the expansionary years abroad, Rockefeller preoccupied him-

Labrecque, left the bank. Labrecque went about his daily schedule, rising at 5:40 a.m. and often working for 12 hours, amid baseless rumors that he, too, would lose his job. One preoccupation at the time involved the introduction of new money market deposit accounts that banks finally were permitted to offer last December. It was Labrecque's decision to pursue money market customers as aggressively as any other bank in the business by offering competitively high interest rates on accounts. "This was one example of how we could tell both audiences, people inside and outside the bank, that we weren't going to sit on our hands," Labrecque says.

To attract money market depositors with high rates, the bank paid out millions of dollars in interest that it couldn't be sure of recouping unless the accounts stuck with it. The risk appears to have paid off. The money market accounts have attracted and kept \$3.7 billion—two-thirds of its fresh deposits. The bank's success with money market accounts, however, came too late to help 1982 earnings. After \$192 million in Drysdale and Penn Square writeoffs, the bank reported net income of \$307 million, down 25% from 1981's record \$412.2 million. Even apart from Drysdale and Penn Square, Butcher concedes, "It still was not a very good year."

So far this year earnings have been disappointing. Yet Butcher insists that the Chase will again enjoy the healthy income growth it once knew, when earnings rose between 15% and 58% a year. To post earnings gains of such magnitude the Chase must, among other things, reduce its costly business with smaller individual and corporate customers and increase its business in the top half of its individual and corporate markets. The bank has closed more than 50 branches in the past five years. It now mans 180 branches whose charges for low-balance accounts are rising fast, partly to discourage poorer customers and to encourage wealthier ones to consolidate their banking at the Chase. The bank's familiar ad pitch, "You've got a friend at Chase Manhattan," has been discarded.

The fact is, if you don't have a lot of cash, you don't have a friend at the Chase. "You know that guy in line in front of you sipping a soda and cash-

ing a \$30 check?" Frederick Hammer, executive vice president, asks whimsically. "No more." In some branches, to force automation on low-balance customers, the bank has even contemplated charging for the services of a teller. In others, there's a fast line for customers with balances of more than \$25,000. And the bank is introducing "universal" accounts for upscale customers that eventually will offer some 30 different electronic services, including borrowing, discount brokerage, money fund investing and possibly insurance, via telephone, teller machine, home computer, cable television and credit card.



Chairman Butcher in his office

"There is no question there was poor judgment."

Outside New York, where the bank can't take customer deposits, it has opened consumer loan offices in wealthy communities such as Boca Raton and Palo Alto. The idea is to attract rich borrowers with loans for such items as cars—Rolls-Royces, not Toyotas—and, if and when interstate deposit-taking becomes legal, attract the borrowers' accounts.

In an important respect, the bank's retail strategy already has paid off. Although retail business was unprofitable until 1978, it provided about 15% of net income in 1982.

The tender loving care accorded the wealthy is even more evident in the Chase's private banking for customers with accounts of \$500,000 and more. The management of individual trust and custodial accounts and of pension accounts earned the Chase 11% of its 1982 net income. Only a few years ago that business had been unprofitable.

The Chase is also preparing for greater deregulation in commercial banking. Its Chase Manhattan Capital Markets Holdings, a "merchant bank," has opened offices in New York, London and Tokyo that, in the

first year of operation, generated more than \$30 million in fees. The merchant bank seems to operate much in the manner of Salomon Brothers and Goldman, Sachs, the underwriters and longtime corporate customers of the Chase, by syndicating loans, underwriting Eurobonds and dealing in the secondary Eurobond market, and also in helping to arrange mergers and acquisitions.

Profits from international business helped carry the Chase through its problems of the 1970s and early 1980s. Notwithstanding the dubious creditworthiness of Mexico, Argentina, Brazil and other foreign borrowers, international business provided 55% of the bank's net income last year (after loan loss reserves) and is expected to provide as great or more a proportion of net income in 1983. The increase in problem loans has abated, says Frank Stankard, who adds: "I think the world is recovering." Rockefeller is proud of the bank's international record. "Losses on international loans, the percent of loss as a percent of loans outstanding, are far less than we have domestically," he told FORBES. "Most people don't realize

that."

Summing up the spirit at the top, Robert Douglass, the Chase general counsel, says, "We're not virgins anymore. We've been through the wars." Yet the Chase somehow must instill that spirit down the ranks, and on that score morale leaves a lot to be desired. Labrecque talks confidently of "procedural documentation" imposed on management before doing anything new and different, and Butcher tells how managers are told they must "put in an accounting memo that describes everything you do. No product or change can be made without filing a memo."

At the top, that seems like good, strong control. But down the line, they look at things differently. "Who the hell cares?" asks an unhappy vice president. That touches on the most important management job of all: to make people care. And that job is ultimately up to Willard Butcher. Too tight a rein and he risks demoralizing the troops. Too loose a rein and he risks more embarrassing and costly failures. It won't be easy to hit it just right. ■

Eric Goldman may soon add another notch to his belt: the youngest president of a bankrupt Amex company.

Oh, to be broke and 24

By Carol E. Curtis

AT AGE 21 ERIC GOLDMAN had achieved what few do in a lifetime. As head of Xoil Energy Resources, Inc., he was the youngest chief executive of any company ever listed on the American Stock Exchange. His net worth was close to \$13 million. He had a penthouse in Manhattan, a 14-room house in the country, a \$40,000 Mercedes and a valuable art collection. And he had attended college for only one day.

When reporters discovered Goldman three years ago, he hired a veteran New York PR man to orchestrate press coverage. Goldman's "dropout whiz kid" image was a magnet for the media. Stories soon appeared in the *Chicago Tribune* and the *New York Daily News*, followed by a three-page color spread in *Fortune*, proclaiming "Oh, to be rich and 23" (Goldman, 21 at the time, lied about his age). There were guest appearances on TV, including the *Today* show, *PM Magazine* and *Donabue*.

The crowning glory was an invitation for Goldman to address the business and financial press at an American Stock Exchange luncheon. "A lot of people were enamored with the guy," recalls an analyst. (As it turned out, Goldman did not speak, because a columnist leaked what he was going to say.)

The media hype didn't hurt Xoil's business, which was selling oil and gas tax

shelters to wealthy clients. After the media rush, Xoil's stock rose from 12 to 24½. That's when, on paper, Goldman's net worth went to about \$13 million.

Then the merry-go-round stopped. When oil and gas prices hit the skids last year, drilling deals suddenly lost their appeal.

In fiscal 1982 Xoil lost over \$10 million. Its stock stopped trading earlier this year at 3. Xoil is now in

default on \$11 million in debt, and, with almost no cash coming in, most of its assets have been pledged as collateral to the banks.

"I can't see them surviving," says Edward Gaudino, assistant vice president in energy financing at Shearson/American Express. "They have pledged every asset they have, their rig deals are bankrupt, and their ability to raise cash is practically nil."

Xoil's problem was that, while Goldman was able to raise plenty of money through limited partnerships, Xoil still borrowed heavily. Debt increased from \$1 million in 1981 to almost \$11 million in 1982.

Much of that money was borrowed at interest rates of 18% to 20%. When oil and gas prices fell, Xoil's drilling operations hit hard times, and the cash from its drilling deals dried up. The company was left with debt it was unable to service.

But plenty of energy companies had those problems. What made Xoil unique was Goldman.

J. Morton Davis, 54, who, besides being chairman of Xoil, is head of the investment banking firm of D.H. Blair, should know. It was Davis who gave Goldman his first, \$50-a-week job on Wall Street and helped him set up Xoil.

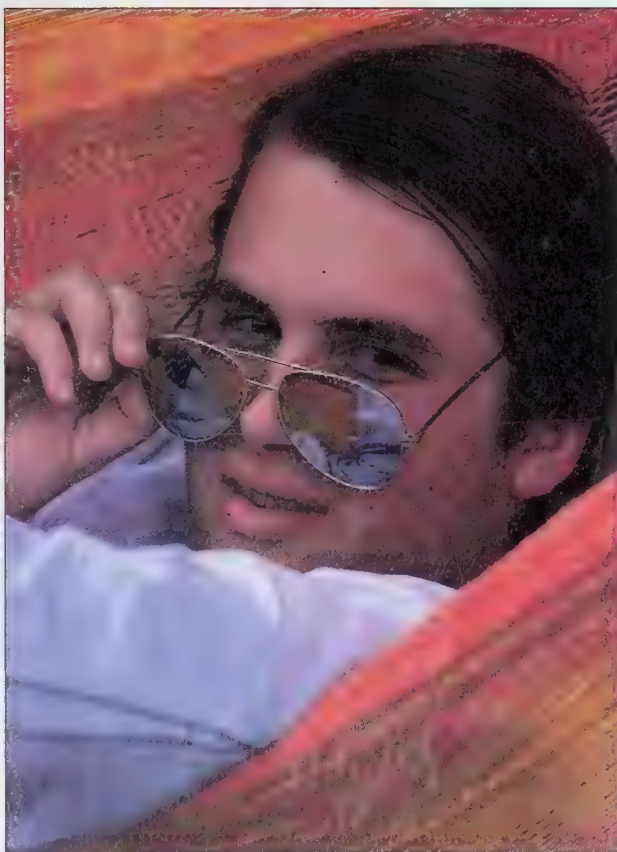
Davis says that he has personally lost \$13 million on Xoil and is still pumping in money to meet the payroll.

"With most of the jockeys I turned management over to, my judgment has been correct," Davis reflects. "[But] Goldman was susceptible to hype. It went to his head. He was starting to tell me what to do."

Some of Goldman's biggest customers were people like Sally Avery, the wealthy widow of artist Milton Avery, who owns 14% of Xoil's common stock. Clients included other people in fashion and the arts.

One intimate describes Goldman as a "very aggressive kid who sold a tremendous amount [of tax shelters] because the company made all its projections based on higher and higher energy prices."

You don't have to be even moderately bright, much less a veteran of the oil business, to know the difference between wishful thinking and a business proposition. "You can't invest in oil and gas



*Eric Goldman of Xoil in palmier days
Then the merry-go-round stopped.*

based on escalating prices," Shearson's Gaudino points out, "because that is predicting the future. Nobody can do that. Oil and gas is a high-risk investment." Gaudino estimates Xoil's stock may be worth about \$1.40 per share, meaning that clients like Sally Avery have lost millions. Gaudino sees little possibility that the stock will ever trade again. Davis ac-

knowledges as much. "It's a sick situation," he says. "The most intelligent thing to do may be to avoid abuse and put it [Xoil] into Chapter 11."

Goldman has other ideas. He says he still hopes to reach agreement with Xoil's creditors, a group of Houston banks. If they go along, Goldman wants to diversify out of oil and gas, possibly into real estate. However,

even Goldman admits that "the best-informed opinion would be negative" on the company's chances of survival.

More likely the youthful Goldman will soon have another notch to add to his belt. Not only will he be the youngest chief executive ever of an Amex company, and one of the most hyped, he may also be the youngest ever to take one into bankruptcy. ■

You don't have to be a future Nobel laureate to found high-tech companies. Consider the Blech brothers.

"I can do that"

By Laura Saunders

IN 1980 DAVID BLECH, then 25, was working with his father as a registered rep at Wall Street's Muller & Co. and writing songs on the side (he has an M.A. in music from Teachers College of Columbia University). Isaac Blech, then 31, worked in advertising for a small manufacturing company and played the market with his brother. An associate says that when Genentech's public offering exploded and the price climbed more than 50 points in one day, David watched it on the ticker and, disgusted, said, "I can do that."

He was right. In the 2½ years since then, David and Isaac Blech have turned a \$30,000 stake into about \$60 million worth of stock by founding high-tech companies and bringing them public. To begin with, they simply called up experts at Rockefeller University and the Memorial Sloan-Kettering Cancer Center to ask their advice about new technologies and scientists working with them. On the strength of that, the Blechs focused on monoclonal antibodies and soon identified Dr. Robert Nowinski of Seattle's Fred Hutchinson Cancer Research Center as someone with promising research.

Dr. Nowinski had been negotiating with several prominent venture cap-

italists, among them Allen & Co. In a commando-like raid, David Blech flew to Seattle, offered Nowinski more favorable terms and did the deal. "They already had the name and the incorporation," says Nowinski. "We met the first time just before Christmas, and it was settled by Jan. 2."

Now lots of investors know about Genetic Systems as a medical biotechnology company that has caught the market's fancy. Although it may not see any earnings until 1984, it has had two successful public offerings that have raised \$26 million in the

last three years, and was recently selling at \$17. The Blechs, Nowinski and assorted early investors (including the Blechs' mother) got their stock for a penny a share, as did an "advisory board" of eminent scientists. Then the Blechs recruited James Glavin, a respected pharmaceutical executive, to manage the business. Today David, Isaac and Nowinski own about 5% each of the company and Glavin about 1½%.

In June 1981, eight months after incorporation, Genetic Systems went public through underwriter D.H. Blair & Co., Inc., whose owner, J. Morton Davis, says he has known the Blechs' father for years. In April of this year a secondary offering managed by Allen & Co. and Merrill Lynch raised \$20 million at nearly \$10 per share.

Genetic Systems now has one product on the market, and another expected shortly. The Blechs' stake, bought in November 1980 for about \$20,000, is worth some \$33.5 million.

Though still independent, the Blechs work out of J. Henry Schroder Corp., which has bought into several of their companies. Since the brothers' first offering, they have put together several other companies along the same pattern: an embryonic technology, a founding scientist, a business manager brought in from a well-known corporation in the field, a "sci-



David and Isaac Blech (left and right, in color) with one of their boards
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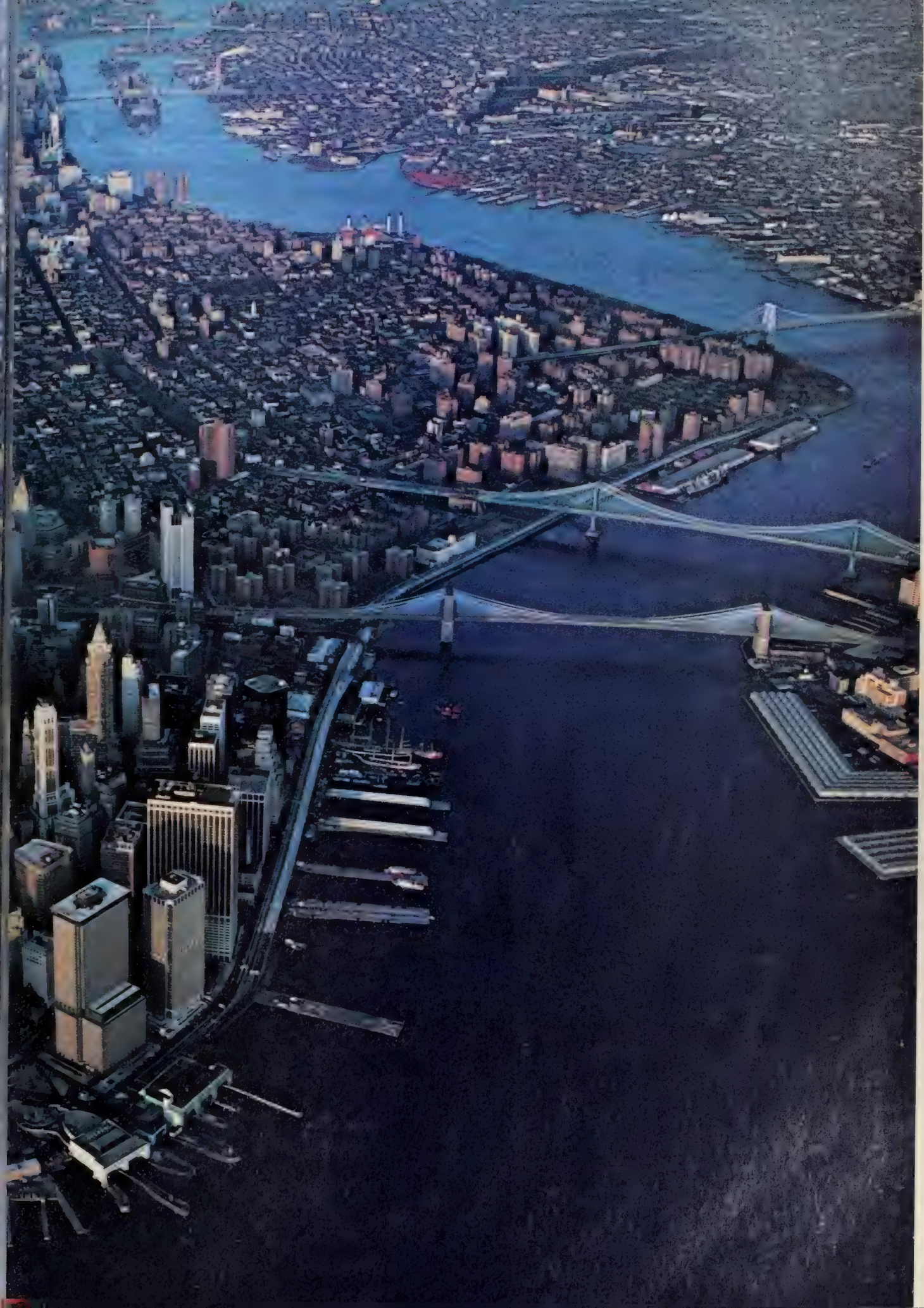
An aerial photograph of New York City, showing the dense urban landscape of Manhattan and the surrounding harbor. The image is oriented vertically, with the city skyline running along the right side and the harbor on the left. The text is overlaid on the left side of the image.

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Also, enormous capital gains. La-sertechnics, which plans to manufacture carbon dioxide laser systems, went public in February, turning the Blechs' \$10,000 stake into about \$5.4 million. In March it was Cambridge BioScience, a Massachusetts-based group of researchers working with recombinant DNA. That turned their investment of \$275 into \$8 million. In

July comes Nova Pharmaceutical, founded with a Johns Hopkins-based scientist using receptor technology to devise new drugs. Presto. The Blechs' stock, bought at \$200, will become worth perhaps \$16 million.

Finally, at the end of the summer there will probably be an offering for DNA Plant Technology, which falls outside the pattern a bit. In 1981 the brothers decided that two scientists with the Campbell Soup Co. were comers in the field of genetic engi-

neering for plants and persuaded them to form a company. Campbell thought better of letting the scientists slip away, however, and bought 40% of the venture for \$10 million. Part of that was in facilities, so the scientists will never even have to leave their test fields and lab. There are no figures on this one yet, but in this investment climate, why shouldn't it be profitable. "I can't think of anything quite like it," says one insider, shaking his head. ■

Venture capitalists used to nurse a new company along for four or five years before bringing it public. Not these days.

Wall Street preemies

By Richard Phalon

PERCEPTIONS CHANGE quickly on Wall Street. In the old days, which is to say as recently as a year ago, before the new-issues market exploded, the venture capital rule of thumb was that it took four or five years to get a new company launched. There were chores like pumping several rounds of private financing into the fledgling and working management depth into the structure before going public. No longer. The great new-issues chase seems to be turning the process into an assembly line.

So far this year more new companies backed by such well-established venture capitalists as Frederick R. Adler and American Research & Development have come to market than ever before. Many are coming at much earlier stages of development and at much higher prices than would have been feasible in a less bullish climate. Investors, in other words, are paying fat premiums for companies whose long-term viability is wreathed in question marks.

Some venture capitalists have mixed feelings about where the undertow is taking them. "We tell managements they shouldn't go public be-



Fred Adler of Adler & Co.
Who can resist 2,000%?

fore the company is structurally ready," says Thomas J. Cable, a partner in the Seattle investment banking firm of Cable, Howse & Ragen. "But there's this tremendous window in the new-issues market right now, and it's against the entrepreneur's nature to step on the brakes."

Particularly when no one is sure when that window may slam shut. "Everybody knows this market isn't going to last forever," says Edward F. Glassmeyer, a partner in the West-

port, Conn.-based venture capital firm of Oak Investment Partners. All the pressures are pushing in one direction: Get while the getting is good.

The getting has been especially good for underwriters, promoters and speculators. According to the Hoboken, N.J.-based research firm of Abrahamsen & Co., the first six months of this year alone saw more new issues come to market than the \$3.3 billion worth sold in all of 1972, the previous record year. Besides the standard commission of 5% to 7.5% on the stock they sell, underwriters are in many cases taking down warrants at prices that offer the prospect of big capital gains. The environment is so superheated that issues like Information Resources and U.S. Health Care Systems have more than doubled in price almost overnight (see p.172).

The venture capitalists haven't been doing badly, either. Take the case of Daisy Systems Corp., a Sunnyvale, Calif. producer of computer-aided engineering systems that went public at 15½ a share about a month ago and is currently trading at around 27. Three years ago the company existed only in the aspirations of its founders—Aryeh Finegold, a highly persuasive 35-year-old electrical engineer, and his sidekick, 30-year-old David Stamm. In return for \$1.5 million or so risked in backing the Finegold-Stamm technology at a time when other venture capitalists were dubious about its validity, Frederick Adler of Adler & Co. and his associates (they include Citicorp and Morgan Guaranty Trust Co.) now own about 4 million shares of Daisy, worth more than \$100 million.

Ed Glassmeyer's Oak Investment partners also took a piece of the early action in Daisy. They have about 2 million shares worth about \$53 million. The cost of much of the Adler stock: 28 cents to \$1.16 a share.

Daisy is not the only bell ringer the Adler group has to its credit this year. Sometimes in combination with other venture capital groups, Adler has

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brought in such other winners as Medical 21, a Dallas-based owner of ambulatory surgical centers, and Ungermann-Bass, Inc., a Santa Clara, Calif.-based producer of computer networking devices. Neither company had much of an operating history or demonstrated earning power. But they fitted the Adlerian canon like a wet T-shirt: promising management or products in fast-growing industries that happened to be in investment vogue. As usual, the two companies cushioned Adler and his partners against the risks they were taking with big chunks of stock at low prices: around \$4.50 a share in the case of Medical 21; less than \$1 for Ungermann-Bass. Recent price: around \$28 each. That's a total paper profit of \$43 million, or 2,000%, on the \$2.1 million equity Fred Adler and friends put into both companies.

Any venture capitalist worth his gold Rolex has to respond to incentives like that. By the end of this year, Adler says, an "unprecedented number" of his 50 portfolio companies will have been brought public. Are Adler and his fellow venturists pushing assets out the door in a rush to catch the top of the market? Not so, Adler says. Many of the young ventures are the culmination of "three, four or five years" of development.

Maybe so, but in some cases, the timetable has clearly moved up. Cable has high hopes for Immunex Corp., a three-year-old Seattle medical testing company he expects to be bringing to market any day now. In a "less dynamic market," he concedes, Immunex would have been fleshed out with private cash for another year or so. Cable insists a company can be whipped into shape faster these days, precisely because there is much more venture capital around. "These companies are better financed than they ever were in the past," he says.

Despite the speed with which companies now go from embryo to prospectus, most venture capitalists don't take the money and run once their babies go public. So far, at least, there have been no en masse bailouts. A FORBES survey of 125 new issues turned up only 43 cases where venture capital selling figured at all, and most was modest. The venture strategy is to stick with a fledgling for several years, help it mature through what may prove to be a major growth period, and then either merge it or slowly unload that nice inside stock at ever increasing profits.

There are some exceptions, though. Conservatively run venture groups are beginning to take profits.

For example, Textron's American Research & Development venture capital subsidiary has sold off chunks of its holdings in at least five venture deals and gotten completely out of two others. "It's a time to be wary," says ARD President Charles Coulter. "A company really has to earn a lot more than 10% to 15% a year before justifying some of the multiples we're seeing now." The University of Rochester's shrewdly managed endowment has sold 84,280 shares of Mastor Systems Corp., a Sunnyvale, Calif.-based producer of data storage systems, whose stock recently went public at \$16 a share. "The market is getting a bit pricey," says Phillip Horsley, a partner in the firm that handles the university's venture investments. "I don't think it can be sustained."

Perhaps other investors should give that some thought. The fact is, the market is laboring under an increasingly heavy overhang. Look at Daisy Systems. The Adler group and other insiders own 12 million shares. About 7.3 million of the total is "restricted" stock that can't be sold for another two years. But 4.8 million shares became eligible for sale 90 days after the Daisy prospectus was printed. Similarly, about 11.6 million shares of the inside Ungermann-Bass stock became eligible for sale shortly after the stock

came to market. The pattern is widespread. What will happen to that inside stock if there is a sharp break in the market? When everyone tries to get out at once, the doorway gets to be a narrow squeeze.

Many venture capitalists argue that history won't repeat, that this new-issues boom is different. The "quality" of top-tier issues from top-tier underwriters such as Hambrecht & Quist or L.F. Rothschild, Unterberg Towbin, they contend, is much superior to the stuff of past booms. Maybe. But once you get behind the headlines on the Jarvik-7 artificial heart, for instance, and into the fine print of the prospectus on its designer, Kolff Medical, it's hard to find anything much more substantive than roseate hope to justify the price on the stock. The same can be said of hundreds of other issues.

Hope and promise, of course, are the major intangibles of the venture capital process. Without them the U.S. venture process would be as short on risk takers as England and France. Hardly anyone, though, expects quality to improve in the new-issues market as the prospect of big money to be made drives the manic demand for more merchandise. Venture capital is looking better than ever just now. The big question is how much more prosperity it can stand. ■

Is the computer industry headed for a shakeout like the auto industry's of 50 years ago? It's an intriguing theory, but it doesn't hold up.

Model Ts and Mack trucks

By Stephen Kindel

TEXAS INSTRUMENTS' 39½-point one-day plunge, on the day the Dow Jones industrial average climbed 24 points, has been heralded in some quarters as the beginning of the long-awaited shakeout in the computer industry. The constantly falling price of hardware, so the the-

ory goes, puts enormous pressure on all but the most efficient producers. Within three to five years, then, there would be only four or five manufacturers left, including IBM, Digital Equipment and Hewlett-Packard. Most computer executives also mention either Wang, Data General, TI or one of the Japanese makers among the survivors—along with their own com-

pany, of course.

As proof of the shakeout, theorists always hark back to the early history of the automobile. After Daimler cobbled together the first high-speed internal combustion engine in 1885, automakers proliferated madly. It was the introduction of the first complete assembly line by Henry Ford for the Model T in 1913 and the consolidation and rationalization of General Motors' many divisions, which was begun by Alfred P. Sloan when he became president of the company in 1923, that doomed all the smaller manufacturers.

From 1929 onward the number of American carmakers declined rapidly, from 108 to 44 by the eve of World War II. After the war the number of manufacturers shrank again, so that by 1950, when unit sales began to rise dramatically, the number of major manufacturers had fallen to 5. Now, of course, there are 3½—Ford, General Motors, Chrysler and American Motors, which does not have a full product line.

Likewise, the computer makers say, their own industry is undergoing rationalization. Curiously, even the names of some of the more than 500 computer makers are reminiscent of the past: Franklin, Eagle and Arrow are among the brands that sold as cars

yesterday and sell as computers today. But those names may again disappear with the emergence of the compatible bottom-to-top product lines, say the shakeout-is-coming theorists. IBM, the industry leader, is taken to be further along on this path, particularly since the introduction of its highly successful personal computer two years ago.

But don't be too bemused by history. If you take a close look, you come up with this: In 1929 Detroit manufacturers, convinced that sales would rise forever, expanded production to over 8 million cars a year. But there were not enough roads, gas stations or spare parts, and too few people who had any reason to own a car—other than to impress their neighbors.

So as rapidly as auto sales rose from 1925 through 1928, that's how fast people stopped buying cars in 1929. Automobile stocks fell in May 1929, presaging the total collapse of the stock market a bare six months later. Automobile sales, in fact, did not again approach the 8 million mark until 1950.

But isn't that exactly what's happening in personal computers? Look at the recent poor performances by TI, Atari and Mattel. Aren't they omens of worse to come?

Not likely. Even at \$5 billion, the

personal computer market is not the whole computer market, not even a sizable piece of it. It pales beside the \$80 billion office and industrial market for computers. In addition, there is the \$15 billion semiconductor market, whose chips and computer logic are incorporated into all sorts of products that aren't thought of as computers, from the obvious video games to the less obvious automobile. There are also uncountable more billions being generated from computer-related successes.

The fact is that home computers have not yet found a niche—there is a lack of adequate software, spare parts and peripheral devices. Peripherals make up the greatest cost of the total package (see story, p. 48). And too many people bought computers to impress their neighbors.

But none of that puts the computer industry, or the nation, in any danger of economic collapse. A better analogy between cars and computers might be in the sale of heavyweight trucks.

The computer is more a Mack truck than a flivver. Truck sales rose right through the Depression because industry found trucks to be a more productive tool than railroads. So it should be with computers, however the pleasure market develops. ■



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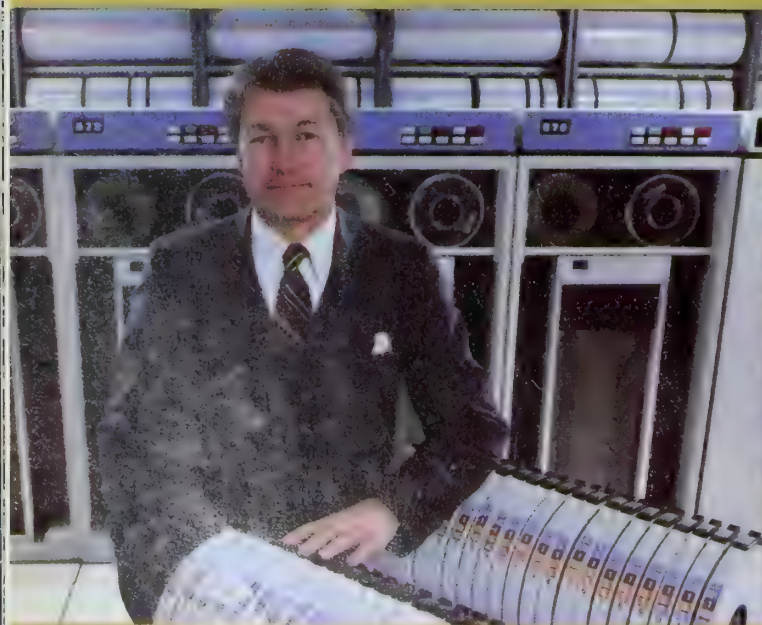
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Securities

"It is extremely naive," says one of the largest electronics distributors, "to think that computer peripherals won't go the way of small computers themselves."

What silver lining?

By Anne Bagamery

WHILE PESSIMISTS responded to the news of Texas Instruments' possible second-quarter \$100 million loss by dumping TI stock, and by dumping on the industry in general, others pointed out that all was well with computer peripherals—the disk drives, printers and other add-ons that turn an ordinary central processing unit (CPU) into a videogame or a small business system. Immune, so far, from the price-cutting that has plagued the computers themselves, peripherals are thought to make a silver lining in a clouded business—the high-margin "blades" that make selling all those low-margin "razors" worthwhile.

The truth, as usual, lies somewhere in between. Just as the outlook for small computers isn't nearly that gloomy (*see story, p. 44*), the outlook for peripherals isn't nearly that bright. As TI, Atari, Commodore and the rest of the home computer makers sort out their pricing and inventory problems, peripherals manufacturers—the big guys as well as hundreds of little start-ups—are coping with many of the same pressures that beset the computer makers. There are pressures arising from shifting distribution channels, increasing standardization, a de-emphasis of technology in favor of marketing and service and, ultimately, price-cutting to gain market share. Says Dennis Cagan, vice chairman of Los Angeles-based David Jamison Carlyle Corp., one of the largest distributors in the U.S., "It is extremely naive to think that computer peripherals won't go the way of small computers themselves."

Of course, no industry segment is exactly endangered. Future Computing, a Richardson, Tex. market re-

search firm, projects U.S. sales of home computers (\$100 to \$1,500) and personal computers (\$1,500 and up) to increase nearly fourfold by 1987, to \$7 billion. Sales of peripherals should grow more than sixfold, to \$18 billion, and sales of software—games, text-editing programs and such—more than eightfold, to \$8.5 billion. "The market for small computers is far



Chicago hoopla (above) and Adam A megabusiness in flux.

from saturated," says Egil Juliussen, Future Computing's chairman.

The peripherals business has seemed safe for several reasons. Computer buyers typically spend \$1.50 on peripherals for every \$1 they spend on the CPU. This ratio tends to increase as users become familiar with their machines and demand more functions. Manufacturers' margins average 30% pretax, more than the margins on CPUs. That's partly because peripherals, unlike processors and software, contain more high-priced mechanical subassemblies, many of

which retain a proprietary edge. An Atari-compatible joystick, for example, won't work on a TI 99/4A. If no manufacturer has been able to grab more than 20% of the market for any one product, none has been likely to start a price war in order to do so.

But all that is changing. As a handful of manufacturers begin to dominate the market for CPUs—IBM in personal computers, TI and Commodore in home models—de facto standards for peripherals are emerging. Standardization rewards low-cost, high-volume producers and tends to knock out little custom-builders who can't compete in price. As the market for small computers grows, manufacturers of peripherals must rely more on indirect distribution channels—chain stores or independent distributors—that provide marketing support and service in return for some of those nice margins. Even IBM, with its legendary internal sales force, sells the vast majority of its personal computers through outside dealers.

Fast-moving peripherals makers are already finding ways to fight back. Coleco caused a stir at the summer Consumer Electronics Show in Chi-

cago by introducing the Adam, a home computer with a Daisy wheel printer "bundled" into a \$600 price tag. Many in the industry think more bundled systems will follow. Tandy Corp., which has a network of Radio Shack retail stores, is further integrating by making its own disk drives. Some expect IBM and TI to follow suit, which would leave less of the add-on market to little companies.

The outlook: increasing integration by the big competitors, a shakeout among the little ones and an eventual slump in prices. It's just what happened in computers. "Many manufacturers think that consumers think there's something wrong with a low-priced peripheral," says Cagan. "They're wrong. Consumers are no longer ignorant about this stuff. This is the national marketplace." ■

Out of the woods?

Looking for a cheap stock with lots of leverage and a big float—one that institutional investors might fall in love with? H.C. Bowen Smith, forest products analyst for Salomon Brothers, has the perfect choice: Weyerhaeuser. The Tacoma-based giant was badly whipsawed by the recession. In 1982 earnings fell to 90 cents a share, vs. a high of \$4.01 just three years before. At \$40, its shares are up more than 50% since August, but that's half the gain of other big forest products firms.

Investors are scared off by Weyerhaeuser's exposure in Japan. But Smith has good news about exports, which account for 45% of profits. By late this year he expects overseas prices to begin to improve. Domestic demand, of course, is firming now—but the story gets better.

Since 1981 Weyerhaeuser has cut pretax costs by around \$150 million. What with improved profitability and the proceeds from an equity offering this spring, that could mean over \$500 million in excess cash by 1984.

So don't be surprised if it makes an acquisition. That could help shareholders too. Over the next five years the company will have about \$500 million in tax benefits it can use to shelter new income. Smith, who thinks Weyerhaeuser could earn \$5 next year, says it should carry a market multiple of at least 10. "But plenty of times it sells at a premium to the market," he explains, "so this one could go as high as \$60."—Thomas Jaffe

Nothing in, nothing out

The soaring multiples of high-tech favorites aren't the only signs of delusion in today's markets. Look what's happening to shares in troubled companies. After Chrysler's spectacular gains, these low-priced stocks are now easier for brokers to sell—and are as a result more often overvalued.

Braniff, for example, was trading at \$3.75 when it filed to merge with Hyatt Corp., but professionals had long realized that stockholders would be squeezed out by creditors. Now equity owners will get a mere 1.7% of the reorganized company—worth less than 25 cents per share according to Jack Kneafsey of Prudential-Bache. While Braniff has \$300 million in tax-loss carryforwards, he thinks they will be used to offset profits at Hyatt and thus be of little value to the airline's shareholders.



Braniff planes grounded
Back to earth for the stock as well.

To make matters worse, it takes 125 old Braniff shares to get 1 share in the reorganized company, and there will be no fractional distributions. So anyone with fewer than 125 shares faces a total loss. Moral: Some things that look like they are worth nothing really are.—T.J.

Nobody's talking

Lots of Norton Simon shareholders, presumably, couldn't care less who takes over their company. Those who bought in early this year, for example, already have about a 40% gain.

But 84-year-old Frank Sawyer is doing lots better. A Bostonian whose businesses include taxicabs and insurance, he is NSI's largest individual shareholder. After selling his Avis franchise to NSI in 1980, Sawyer wound up with about 1.3 million shares, then worth a shade over \$14 each. Today the value of his stake has more than doubled, to \$45 million.

Perhaps that's why Sawyer has been lying low during the recent takeover battle. Even though he votes nearly 6% of NSI's shares, Sawyer claims none of the current bidders has discussed a deal with him. He readily compliments Chairman David Mahoney and otherwise keeps his thoughts to himself. No wonder: When you are sitting with a \$27 million capital gain, you can afford to keep quiet.—T.J.

Dull ain't so bad

"Everybody is fond of talking about all the froth in the market now," says John Neff, portfolio manager of Philadelphia's Windsor Fund. Not surprisingly, this conservative who runs \$1.5 billion in total assets has steered clear of highflyers. Neff describes the Windsor portfolio as "dullsville"—60% in the oil patch, utilities, insurance and non-money-center banks, another 20% in cash.

Since January, Windsor is up just 24.1%, vs. 22% for the S&P's 500. "Our stocks are four yards and a cloud of dust sorts of things," says Neff. "We usually don't do so well in markets like this." Windsor, in fact, generally performs best when the averages are falling—so is Neff eager for a decline? "If the overall market goes down 15%, we'll go down 10%," he explains. "I always like to skim off performance points."

Since a lot of the competition is sitting on handsome gains, he'll need to do doubly well during any decline just to stay even. But Neff clearly isn't worried. "This hasn't just been a one-way street," he says of the recent rally. "We've seen some awful carnage too—not in marginal equities but in stocks with big capitalizations like Texas Instruments, Warner Communications, Kodak and Philip Morris. To me, that's proof that the current market is a little more rational than people give it credit for being."—T.J.

Wrong number

It would have taken more than foresight to buy \$5,000 worth of Webcor Electronics stock a year and a half ago. Since then, however, share prices have moved from 12 cents to over \$30—making that investment now worth some \$1.3 million.

This gain is all the more remarkable since Webcor's net income fell by 65% for the year ended Mar. 31 to a mere 70 cents per share. Sales declined too, by 15% to \$27 million. Track record? Don't look: The firm has been in the red four years out of the past ten.

Investors, however, are paying 45 times earnings for a piece of the telephone replacement market. Victor Reichenstein, Webcor's chairman, whose 28% stake is now worth over \$20 million, once peddled calculators and me-too digital watches. But he used his Far East contacts to move into cordless extension phones and automatic dialers in early 1980.

Some may hear a ring of future profits, but remember that importer Webcor is just one of more than 100 companies in this business. The competition includes American Bell, ITT and Northern Telecom. Discounting by retailers is prevalent, too, and even Reichenstein expects a shakeout.

Some analysts aren't optimistic, either. Richard Singer of Chicago's Mesirow & Co. has sold his position and advises others to do the same. "There's too much risk at today's price," he concludes.—John A. Byrne

Selling sunglasses is not a cheery business. "Hey, turkey face, I'm not going to pay until the end of the season."

Shades of discontent

By Barbara Rudolph

IN THE LATE 1920s, Lieutenant John McReady—the first man to cross the Atlantic in a blimp—arrived at Bausch & Lomb headquarters to help in developing glasses to protect fliers against the sun's glare. Soon B&L introduced an "antiglare goggle," later dubbed the Ray Ban sunglass. Sales really took off when General Douglas MacArthur wore Ray Bans in the South Pacific. One high-margined descendant: limited-edition gold aviator glasses, complete with cherrywood case and priced at \$1,890.

Despite such luxury, the \$750 million-a-year sunglasses market is under a cloud these days. Over the past two years unit demand fell by as much as 15%. Sure, there are expensive designer products like Christian Dior, Yves St. Laurent and Porsche-Carrera. But 90% of the sunglasses sold—representing nearly two-thirds of revenues—are priced below \$20.

This part of the business is as crowded as the beach on a hot, muggy Fourth of July. For starters, there are 5,000 manufacturers and importers worldwide selling to 242,000 outlets. The major players: Foster Grant, a division of West Germany's Hoechst, which has perhaps 35% of the drugstore and mass-merchandise market; and B&L's Ray Ban, which has a slightly smaller share at

the higher end of the line.

Some 80% of all sunglasses sold in the U.S. are imported, and that means the business is easy to enter. "Tell me what you like, and I can have it for you in a week," a Taiwanese manufacturer reportedly bragged to an American importer at a recent trade show in Italy. Things don't actually happen that fast, but you get the idea. That's why there are street vendors in major cities selling knockoffs of Porsche-Carrera glasses for \$5. These copies wholesale as low as 50 cents.

Getting sunglasses into the local Revco, however, is another matter en-

tirely. Everything is negotiable, and around the corner there's always someone with better terms. "There are as many kinds of deals as there are retailers," says Corning's sunglasses brand manager, Chris Mather. Does the company deliver goods to the drug chain's warehouse or directly to the store? Will the manufacturer provide a display case? Will the seller stock the goods year-round?

When everything gets negotiated, of course, not everyone enjoys the leverage of a Foster Grant. "I can muscle a little independent," says the buyer at a major drug chain. "I can say, 'Hey, turkey face, I'm not going to pay you until the end of the season,' and there's nothing he can do about it."

No wonder manufacturers want to move upscale and into department stores. But competition is just as tough there. This summer, for example, Foster Grant stopped trying to sell \$18 to \$20 Vidal Sassoon glasses in addition to its basic line, which averages \$12 a pair. "We're moving back downstairs, where we've always been," says Harvey Alstodt, sales vice president. Corning, which entered the business this year, is also having trouble. "We've been late off the mark, not in as many outlets as we should be," says a spokesman, explaining the poor demand for its \$25 Chameleon department store line.

Selling sunglasses is really a fashion business. There's always hope of a quick change for the better. Consider B&L's recent experience with a style it has been selling since 1958—Wayfarer glasses, with dark lenses and black plastic frames, the kind Dan Aykroyd and John Belushi wore in *The Blues Brothers*. Last spring *Gentlemen's Quarterly* hailed these glasses as part of "the retro look," and B&L reports sales jumped from 1,700 pairs a month to 17,000. This summer demand, at \$35 a pair, is still growing. "Last year," says a B&L spokesman, "they were popular with gays and punk rockers. And now it's everyone else."

That fad won't last forever. But the profits it can produce attract people into the sunglasses business. Unfortunately, they all seem to think it can be just as pleasant as a lazy afternoon at the beach. ■



From Garbo to Belushi, darkly
Some bright spots in a normally cloudy market.

THE 1983 INFORMATION INDUSTRY SWEEPSTAKES

A FORBES Special Advertising Supplement

Company Name (Company Class)*	DP Revenues 1982	DP Rank 1981	DP Revenues 1981	Growth Rate 82/81	Growth Rank 1982	Company Name (Company Class)*	DP Revenues 1982	DP Rank 1981	DP Revenues 1981	Growth Rate 82/81	Growth Rank 1982
1 IBM (1)	31467.6	1	25111.0	25.3	37	51 Telex (7)	194.7	56	142.7	36.4	25
2 DEC (2)	4019.0	2	3586.6	12.1	67	52 Lanier (4)	194.2	49	161.0	20.6	45
3 Burroughs (1)	3809.5	4	2934.0	29.8	30	53 M/A COM (8)	190.0	47	171.0	11.1	69
4 Control Data (6)	3301.1	3	3120.4	5.8	81	54 Nixdorf (2)	186.2	51	59.3	16.9	53
5 NCR (1)	2915.3	5	2838.0	2.7	87	55 Sanders Associates (7)	181.2	48	166.2	9.0	75
6 Sperry (1)	2800.5	6	2781.0	.7	92	56 Tandon (6)	177.1	89	70.4	151.4	5
7 Hewlett-Packard (2)	2268.0	7	1875.0	21.0	44	57 Schlumberger (5)	175.0	53	148.0	18.2	50
8 Honeywell (1)	1685.0	8	1774.0	-5.0	98	58 Informatics (9)	170.2	52	150.3	13.2	63
9 Wang (3)	1321.5	9	1008.5	31.0	28	59 Shared Medical (9)	165.8	61	131.6	26.0	36
10 Storage Technology (7)	1030.0	10	890.9	15.6	57	60 Ampex (7)	163.0	54	147.0	10.9	70
11 Xerox (6)	975.0	11	872.0	11.8	68	61 CPT (4)	158.6	63	123.8	28.1	35
12 General Electric (9)	850.0	14	735.0	15.6	56	62 Intergraph (5)	155.6	77	91.1	70.9	8
13 TRW (9)	825.0	12	855.0	-3.5	96	63 General Instrument (9)	152.2	60	135.0	12.7	65
14 Data General (2)	803.8	13	764.3	5.2	83	64 Sun (9)	152.0	64	121.8	24.8	41
15 Texas Instruments (2)	746.7	15	640.0	16.7	54	65 United Telecom (9)	148.7	58	137.4	8.2	77
16 Tandy (3)	725.0	19	460.0	57.6	10	66 Planning Research (9)	146.8	65	117.2	25.3	38
17 ADP (9)	704.0	17	613.0	14.8	59	67 Dysan (11)	142.8	70	104.2	37.0	23
18 Computer Sciences (9)	683.4	16	624.7	9.4	74	68 Cray (1)	141.1	73	101.6	38.9	20
19 Apple (3)	663.8	22	400.7	65.7	9	69 Wyly (9)	140.5	55	146.8	-4.3	97
20 Electronic Data Systems (9)	555.6	18	480.6	15.6	58	70 Martin Marietta (9)	124.0	75	99.2	25.0	39
21 Datapoint (7)	514.0	20	453.0	13.5	61	71 Quotron Systems (9)	120.9	78	88.1	37.2	22
22 Motorola (8)	484.9	45	180.0	169.4	4	72 Reynolds & Reynolds (2)	119.7	68	115.4	3.7	85
23 McDonnell Douglas (9)	476.0	26	346.5	37.4	21	73 NBI (4)	119.5	85	76.7	55.9	11
24 Amdahl (1)	462.2	21	442.8	4.4	84	74 Recognition Equipment (7)	119.5	62	131.5	-9.1	99
25 Prime (2)	435.8	24	364.8	19.5	49	75 Bradford National (9)	115.4	71	102.0	13.2	64
26 Commodore (3)	420.0	46	176.0	138.6	6	76 Centronics (6)	112.7	66	115.9	-2.8	95
27 National Semi (1)	387.1	28	320.0	21.0	43	77 Dun & Bradstreet (9)	110.0	74	100.0	10.0	73
28 Teletype (6)	377.6	23	368.4	2.5	88	78 Gerber (5)	107.2	72	101.9	5.2	82
29 Mohawk (7)	355.5	29	314.0	13.2	62	79 American Express (9)	106.0	82	81.0	30.9	29
30 MAI (2)	354.2	25	349.1	1.5	90	80 Commerce Clearing House (9)	104.5	76	92.0	13.6	60
31 Harris (7)	344.9	30	313.0	10.2	72	81 National Data (9)	102.7	86	71.9	42.8	18
32 Tektronix (7)	336.2	31	308.9	8.8	76	82 MSA (9)	101.2	88	70.6	43.4	17
33 Raytheon (7)	336.0	35	260.0	29.2	31	83 Zenith (3)	100.0	87	71.0	40.8	19
34 Tandem (2)	330.9	38	242.5	36.5	24	84 Televideo (6)	98.5	98	34.7	184.0	2
35 Triumph-Adler (6)	326.7	27	320.0	2.1	89	85 Convergent (6)	96.5	100	13.1	636.1	1
36 C. Itoh (6)	326.4	43	213.0	53.2	12	86 Modular Computer (2)	92.8	79	87.2	6.4	79
37 Computervision (5)	325.2	33	270.7	20.1	47	87 Verbatim (11)	91.9	90	68.6	34.1	27
38 Gould-SEL (2)	325.0	32	280.0	16.1	55	88 General Automation (2)	89.6	67	115.6	-22.5	100
39 Warner (3)	310.0	69	115.0	169.6	3	89 Triad (2)	89.2	84	79.1	12.7	66
40 Racal (11)	300.0	39	240.0	25.0	40	90 Lear Siegler (6)	88.0	80	85.0	3.5	86
41 Dataproducts (6)	297.6	34	270.0	10.2	71	91 Floating Point (7)	86.6	95	57.9	49.6	14
42 Tymshare (9)	297.0	37	246.8	20.3	46	92 Interactive Data (9)	81.7	81	81.1	.6	93
43 Perkin-Elmer (2)	267.4	40	226.6	18.0	52	93 Printronix (6)	77.4	93	60.2	28.7	33
44 ITT (6)	265.0	36	250.0	6.0	80	94 Comshare (9)	77.4	83	79.4	-2.5	94
45 Boeing (9)	263.7	44	205.5	28.3	34	95 Systems Industries (7)	75.4	91	62.9	19.9	48
46 Northern Telecom (2)	237.4	41	222.0	6.9	78	96 Nashua Corp. (6)	74.8	94	58.0	29.0	32
47 3M (11)	223.1	42	220.0	1.4	91	97 Decision Data Computer (7)	74.3	97	50.1	48.3	15
48 Paradyne (7)	207.3	59	135.4	53.1	13	98 Anacomp Inc. (9)	73.9	96	54.6	35.4	26
49 Philips (4)	203.0	57	140.0	45.0	16	99 McGraw-Hill (9)	72.0	92	61.0	18.0	51
50 Allied (2)	195.0	50	160.0	21.9	42	100 Cipher Data Products (6)	70.1	99	33.2	111.2	7

SUMMARY: 78244.1 65244.0 19.9

*Company Classifications

1 Mainframes
2 Minicomputers

3 Microcomputers

4 Word Processing/Office Automation

5 CAD/CAM

6 OEM Hardware

7 End User Peripherals

8 Data Communications

9 Software and Services

10 Maintenance

11 Other (primarily media)



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THE 1983 INFORMATION INDUSTRY SWEEPSTAKES

THE HIGH FLYERS

TOP 10 IN DP REVENUE GROWTH RATE

	% DP Rev Gwth 82/81	U.S. DP Rev Gwth 82/81	For. DP Rev Gwth 82/81
1 Convergent Technologies	636.1		
2 Televideo Systems	184.0	196.3	149.9
3 Warner Communications	169.6	160.0	233.3
4 Motorola	169.4	169.4	169.4
5 Tandon	151.4	179.1	37.1
6 Commodore International	138.6	273.3	92.4
7 Cipher Data Products	111.2	104.9	147.1
8 Intergraph	70.9	70.9	70.9
9 Apple Computer	65.7	65.7	65.7
10 Tandy	57.6	57.6	57.8

THE BEST BOTTOM LINES

TOP 10 IN DP OPERATING MARGINS

(dollars in millions)			
	DP Op Profits (%) 1982	DP Op Profits 1982	DP Op Profits (%) 1981
1 Shared Medical Systems	24.7	41.0	25.0
2 IBM	23.0	7250.4	23.5
3 Cray Research	22.8	32.3	30.0
4 Quotron Systems	22.8	27.6	24.0
5 Convergent Technologies	18.9	18.2	8.2
6 Apple Computer	18.1	120.0	18.7
7 Telex	18.1	35.2	12.9
8 Floating Point Systems	17.9	15.5	16.2
9 Commodore International	17.6	74.0	22.4
10 NBI	17.3	20.7	18.0

The Year in Review

Led by IBM's mainframe sales, the DP industry plowed through the recession like a locomotive through a snowdrift. Buyers seeking productivity enhancements acquired DP hardware, software and services at rates exceeding previous years. Led by the Manufacturing industry, DP buyers purchased over \$78 billion of DP goods and services in 1982, representing a 20% growth from the \$65 billion spent in 1981. With DP products comprising only about 40% of the average corporate MIS budget, a reasonable estimate of total 1982 DP expenditures approaches \$200 billion. If present rate trends continue, in less than 10 years the U.S. will spend over

\$1 trillion on total DP!

Microcomputer companies again led the DP industry in growth, posting over a 90% rate, while mainframe companies accounted for the largest portion of the market with 55%. Minicomputer companies, however, were hammered by competition at both ends of their product spectrum for one of their worst years.

CAD/CAM (computer-aided design/computer-aided manufacture) companies continue to lead the DP industry in profitability, more than two points ahead of the next most profitable sector, WP/OA. Minicomputer companies' operating margins slipped close to 5 points in 1982, making it the least profitable

sector in the DP industry, after Data Communications.

Although mainframe revenues continue to take up a smaller part of the DP pie (a trend that began four years ago) overall industry market revenue patterns show the mainframe-oriented DP shop still firmly controlling market spending. While gradually losing ground to micros and minicomputers, combined mainframe hardware, maintenance and service revenues still dwarf spending on other computer resources. However, microcomputers are growing so fast that they threaten to significantly upset the historical hierarchy in the next few years.

THE MOST PRODUCTIVE

TOP 10 IN REVENUES PER DP EMPLOYEE

(dollars in thousands)

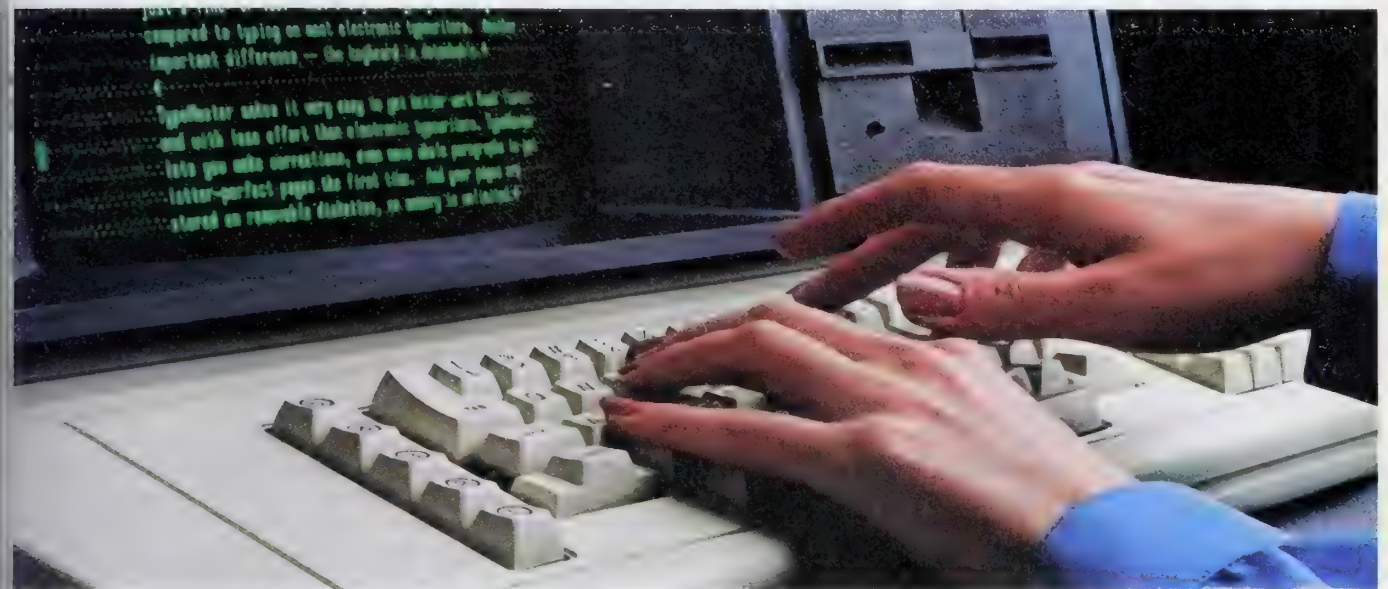
	DP Revs per DP Employee	Total DP Employment	DP Op Pft per Employee	Profit/Emp 1982 Rank
1 C. Itoh	408.0	800	N/A	N/A
2 Lear Siegler	292.3	300	N/A	N/A
3 Apple Computer	222.0	2990	40.1	4
4 Motorola	194.0	2500	12.4	22
5 Convergent Technologies	164.1	588	31.0	7
6 Systems Industries	130.7	577	3.9	51
7 Tandy	113.3	6400	N/A	N/A
8 NBI	109.1	1096	18.9	12
9 CPT	108.8	1458	17.2	14
10 Cray Research	104.4	1352	23.9	8

THE LEADING EDGERS

TOP 10 IN R&D AS % OF REVENUES

	DP R&D as % DP Revs 1982	DP R&D Expend 1982	DP R&D Expend 1981
1 TRW Corporation	60.6	500.0	N/A
2 MSA	21.5	21.8	16.4
3 National Data	21.4	22.0	N/A
4 Cray Research	20.1	28.3	16.3
5 DEC	14.2	570.2	292.0
6 Intergraph	12.7	19.7	12.0
7 Honeywell	12.3	206.6	192.0
8 Tektronix	11.5	38.8	32.0
9 Computervision	11.1	36.0	27.3
10 Tandem	10.8	35.8	21.2

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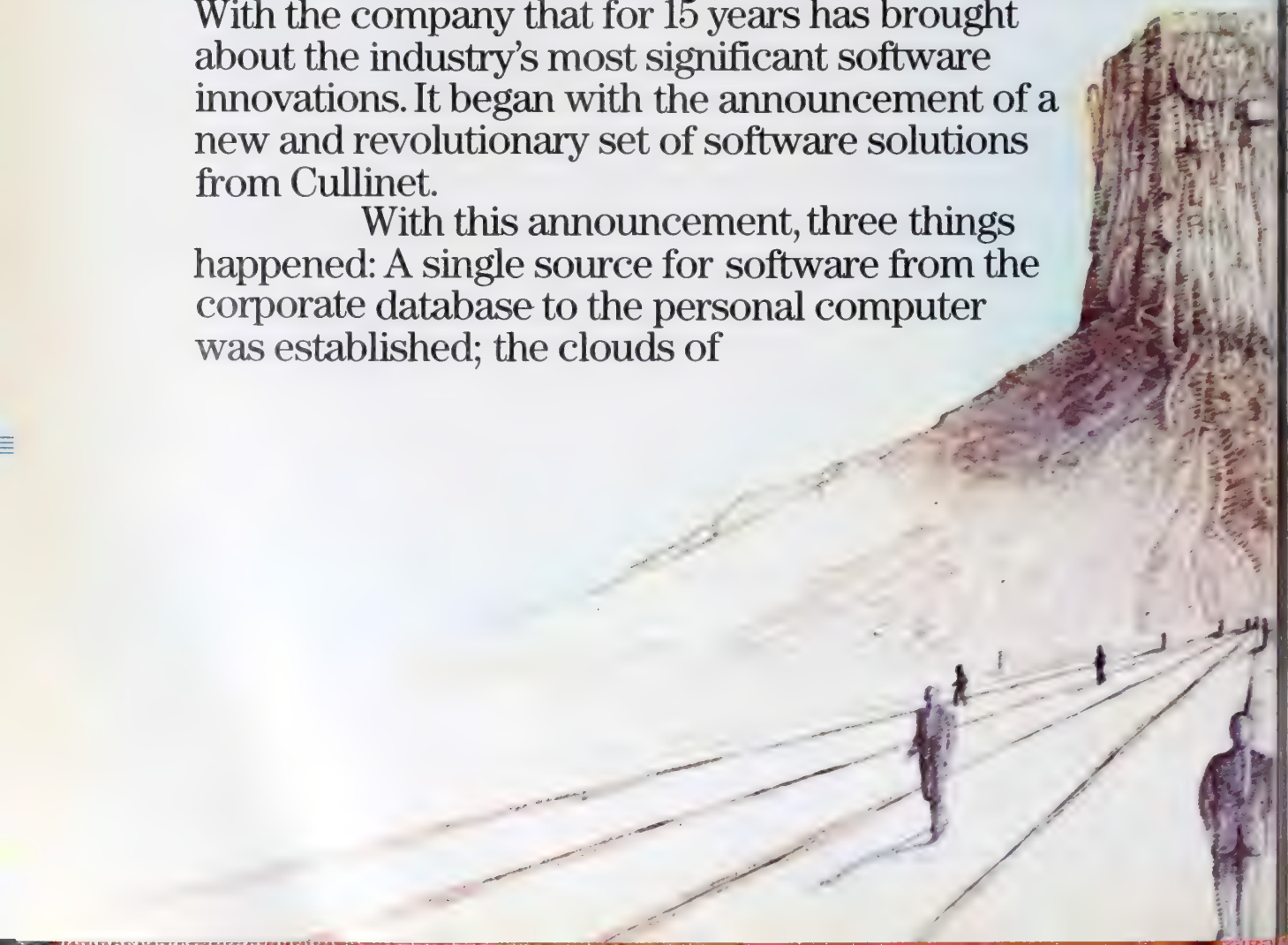
April 19, 1983. The end of the computer age.

Since about 1950, the computer age has been an age of hardware. And through those 30 some odd years, hardware has grown faster, smaller, sleeker, cheaper but somehow no closer to the true promise of computers.

Then on April 19, 1983, that age of hardware ended. And the software age began.

It began where you would have expected it to begin. With the company that for 15 years has brought about the industry's most significant software innovations. It began with the announcement of a new and revolutionary set of software solutions from Cullinet.

With this announcement, three things happened: A single source for software from the corporate database to the personal computer was established; the clouds of



uncertainty that once surrounded the implementation of a workable corporate computer strategy dissipated, and leadership in the software industry became indisputably Cullinet's.

Where once there was doubt about which of a hundred different and fragmented approaches to take on software, there is now one compatible, wholly integrated and inarguable choice: Cullinet.

From the mainframe to the desktop, software has, at last, come together. And because of this, the promise that computers would be answerable to the broad spectrum of corporate needs can now be fully realized.

On April 19, 1983, the computer age came upon a new focus and a new direction. The answer isn't just another piece of hardware. It's software.

And software is Cullinet.

Cullinet



THE 1983 INFORMATION INDUSTRY SWEEPSTAKE

Industry Sector Reports

In this analysis, the DP industry was grouped into 10 market sectors based upon major product categories. Although companies commonly participate in more than one sector, they were classified by the sector from which they derived the largest portion of their 1982 revenues.

Mainframes

For the first time since the minicomputer was born, mainframe companies' revenue growth exceeded minicomputer vendors. IBM led the eight mainframe companies with almost three quarters of total 1982 mainframe product revenues, which naturally biased the results. While the group as a whole enjoyed a 21% growth, it was primarily due to IBM's success. The

Minicomputers

Minicomputer companies, the growth champions of the 1970's, took a beating in 1982. Pressured by product substitution due mostly to increased capabilities of micros and price reductions for mainframe computers, minicomputer growth rates averaged less than 15%, down from the 24% of 1981.

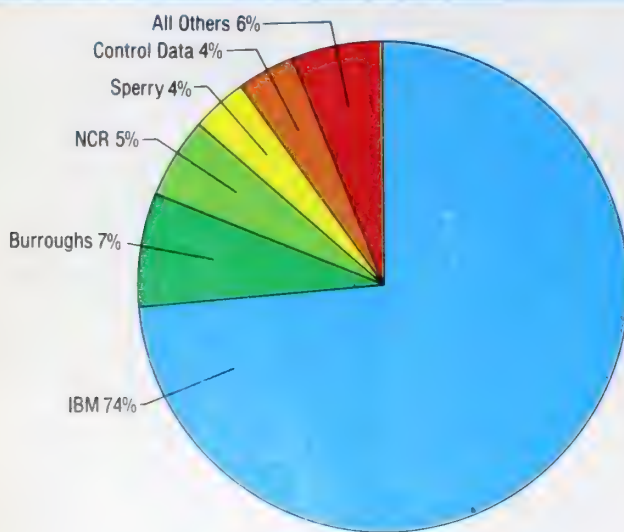
For most of the 19 companies classified as minicomputer vendors 1982 was a year for redefinition and redirection. Heavy R&D investments have been made by this group and 1983-1984 should see them taking the offensive against both ends of the market with ultra-super-minis and 32-bit workstations, along with a strong diversification drive into micros.

Minicomputer companies were led in revenues by Digital Equip-

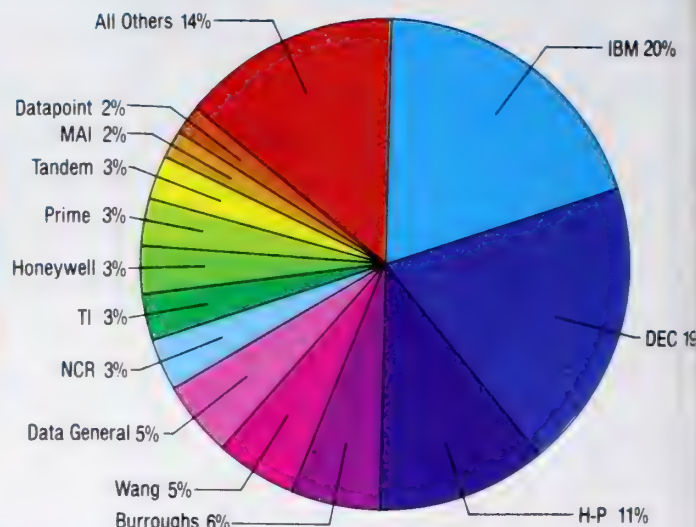
Microcomputers

Microcomputer vendors are still very much in the DP fast lane. With stellar growth rates of over 90% in 1982 they are both pioneering huge untapped markets and challenging the remote computing options of minis and mainframes with more localized personal processing. Assuming lower annual revenue growth rates in the neighborhood of 50-60% for micros and an optimistic 20% for minicomputers, microcomputer revenues will exceed those of minicomputers by 1988.

However, the micro vendors which have made the Top 100 have focused on the lower ends of the market to achieve their impressive growth rates. Apple remains the volume leader among the five companies classified as microcomputer vendors, while the fastest movers



Mainframe Revenues



Minicomputer Revenues

unweighted (i.e. non-IBM) growth of almost 15% is about the same as in previous years. Cray led the group in revenue growth rate at 40% (ironically, a historic low for Cray), with Burroughs second at 30%, attributable largely to its acquisition of Memorex.

ment Corporation (DEC), the second largest computer company in the industry for the second year in a row. All minicomputer vendors showed signs of breaking away from their traditional markets by moving into CAD/CAM, WP/OA, and personal computing.

are Warner Communications and Commodore, both with growth rates of over 100%. Many smaller microcomputer companies not in the top 100 are growing even faster.

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It's an ad for NEC's APC™ Advanced Personal Computer. A solutions-oriented system that solves business problems in the simplest, most cost-effective way. The APC supports both CP/M-86™ and MS-DOS™. It can store more information than any system in its price range. In short, it's got the best price/performance of any personal computer. That's why our competition would prefer that you never see our system.

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"That APC of yours is the most powerful computer of any I saw. I don't know how you can sell it for that price."
"Now that I've used it for awhile, I see why you named it Advanced Personal Computer. And that from businessmen who have tested the competition! When you see the APC, you'll understand why, at least, we picked NEC.
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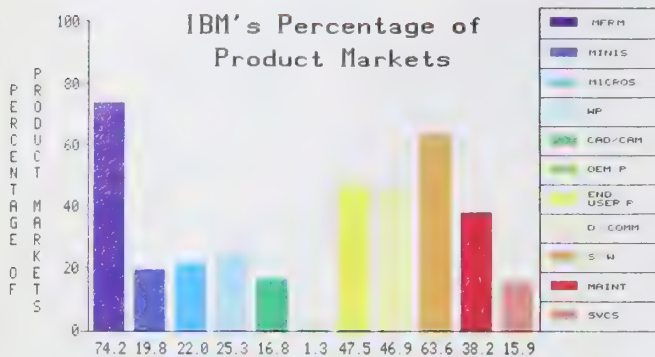
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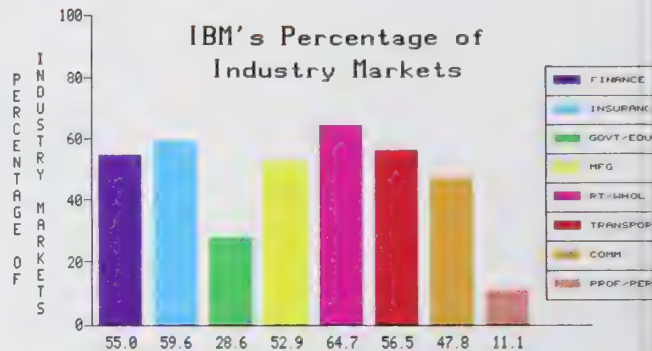
The Benchmark in World Class Computers

THE 1983 INFORMATION INDUSTRY SWEEPSTAKES

IBM's Percentage of Product Markets



IBM's Percentage of Industry Markets



Bar graphs created on TREND-SPOTTER, Cullinet Software's graphic decision support system.

IBM as the Industry Environment

IBM is the big band to which the DP industry dances. Its substantial presence in all but one of the major DP market sectors (OEM hardware) attests to IBM's dominating position. Now that legal pressures are off, IBM is moving to penetrate all sectors of the DP industry. New products and pricing policies, along with a multitude of new products and a new organizational structure have combined in 1982 to give IBM a 40% share of the total DP market. This is the first time IBM's market share has increased since the early 1970's.

In all market sectors, most vendors pursue a coexistence strategy with IBM. The strategy stresses IBM compatibility, at least at the communications level, and often at more complex hardware and software levels. This trend is exacerbated by IBM's erstwhile opponent, the U.S. Government, in that many of its established hardware and software standards for vendors who want to sell to the federal government are actually IBM product specifications copyrighted by IBM.

Because of the size of IBM's installed base, and the established infrastructure of procedures, programs and people required to support it, each DP market segment

can be divided into two parts: products that are IBM-compatible and those that are not. Companies like Amdahl and National Semiconductor sell IBM-compatible mainframes. Telex, Burroughs (Memorex) and Storage Technology (STC) offer IBM-compatible disk and tape peripherals, with STC developing yet another IBM-compatible mainframe. And literally hundreds of companies are providing terminals and personal computers that are compatible with the ubiquitous IBM 3270 line of terminals and the IBM Personal Computer.

But while the IBM-compatible portion of a market is often large and attractive, it can also be hazardous. IBM controls the architectural specifications for its hardware (and

to a large extent the software that can run on it) and sets standards for performance, reliability and price. A vendor deeply committed to a certain technology or market price structure may become extremely sensitive to changes introduced by IBM. IBM compatibility is thus a cyclical business: feast while the market is stable, famine when IBM changes the rules.

Despite predictions to the contrary, if 1982 is any indication of what the new IBM is all about, we can count on "Big Blue" to be the industry pacesetter over the next decade, tightening its grip on established markets and grasping strongly at opportunities in new ones, such as personal computing and CAD/CAM.

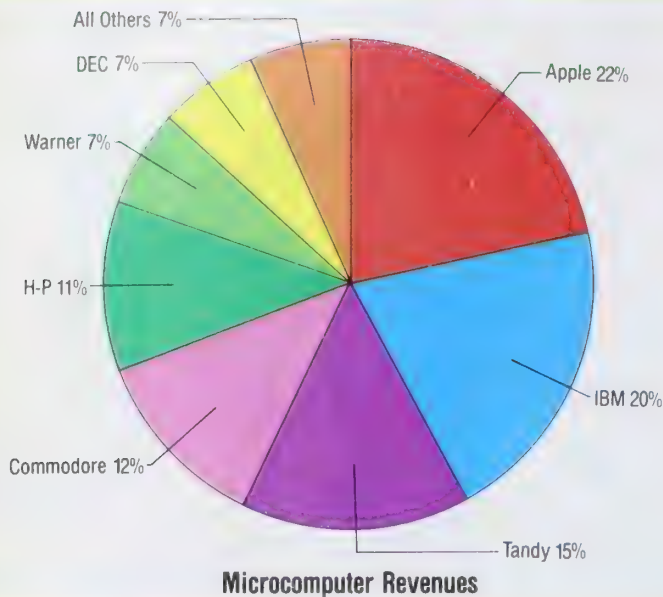
Gartner Group defines DP revenues as those revenues generated by the sale, lease, or service of DP hardware or software or the provision of a DP service. Revenues are counted for the 12 months ending Dec. 31, 1982. Included are all systems hardware, such as mainframes, minis, micros, above the sub-\$100 class, wordprocessing and other office-systems hardware, OEM and end-user peripheral gear, data-communications equipment such as modems and multiplexers, disk and tape media, CAD/CAM systems software, and maintenance.

Specifically excluded are services related to common-carrier communications, electric and electronic typewriters, electronic cash registers, instrumentation, semiconductors, board-level computers, printed circuit boards, automatic test gear, PABX-type switching equipment, forms, and paper, as well as companies primarily in leasing (to avoid double-counting IBM's revenues), and revenues from retail operations like Computerland.

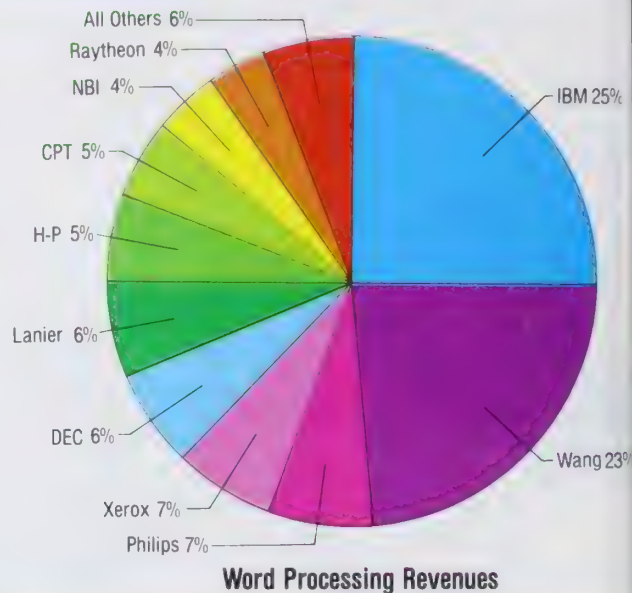
July 18 '83 Forbes 121 NG3

OVE AHEAD AT THE SPEED OF SOUND

THE 1983 INFORMATION INDUSTRY SWEEPSTAKES



Microcomputer Revenues



Word Processing Revenues

Word Processing/Office Automation

Several years ago stand-alone word processing was an identifiable, discrete product category. Today, the processing of words and numbers has become almost totally integrated. This is the last year for this category as the distinction between word and data processing continues to disappear.

Companies classified as WP/OA vendors remain growth leaders. The five WP/OA companies, led by Wang, enjoyed growth in 1982 of almost 33%, substantially down from 1981's 64%. NBI was first with 56%, while Philips Information Systems (Micom) was second with 45%. Wang continues to hold a commanding lead in the word process-

ing arena, but is shifting its product revenue patterns into minicomputers.

Software and Services

Twenty-seven companies are classified in the Software and Services category which enjoyed reasonably good growth in 1982. MSA and National Data led the group with revenue growths of 43%. Many major corporations sell excess computing power in the computer services marketplace as a means to defray their internal computing costs. Accordingly, major vendors of computer services such as McDonnell Douglas, Boeing, Martin Marietta, Sun, McGraw-Hill, General Electric and others, received only a

small portion of their total revenues from DP.

MSA was the only company in the Top 100 that had most of its revenues coming from software products. However, as overall software sales continue to accelerate, we can expect to see several software firms emerge as leaders over the next few years. Companies specializing in microcomputer software such as Visicorp, Microsoft and Digital Research are three good candidates. And if Cullinet Software, just missing the Top 100 this year, continues its strong growth (over 50% in 1982), it, too, should crack the standings in 1983.

The GARTNER 100 highlights a small portion of the data and analysis contained in the 1983 Gartner Group Top 100 Almanac, the most extensively researched and comprehensive resource guide to the leading suppliers and markets in the Information Industry. The Gartner Group Top 100 Almanac

provides market analysts, strategic planners, equipment evaluators and investors the information they need for sound planning and action. For further details, circle the appropriate listing on the reader service card, or call Melissa Marr at 203-964-0096.

The Gartner 100 was produced by Gartner Group Infobank, Mike Macfarlane, Vice President; William Cappelli, Research Analyst; Malcolm Austin, Software Designer. Gartner Group Special Advertising Supplements for Forbes Magazine are produced under the direction of Kenneth A. Smalheiser.

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15 pointed questions to ask MSA or any software supplier

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1. Can you offer us a complete range of software systems designed to work together?

Or will we have to piece together a patchwork of systems?

2. Are your systems just record keepers, or can they really help us make decisions?

Can we pull together information from any of our integrated systems? In exactly the form we want it?

3. Can you provide business software for both mainframe and microcomputers?

Do you develop this software yourself or do you simply market it for another company?

4. Are your systems truly online so all of our information is current?

How many of your systems are online? How secure are they?

5. Will my company have to be the one that discovers the bugs in your brand new system?

Just how long have your systems actually been used, and how have they been tested?

6. Will you update your systems as technology advances and regulations change?

What are some of your most recent updates? Will you keep us current on regulatory changes?

7. Do your systems really do everything you say they will?

Or will we have to change them or add to them to get the features we want?

8. How long have you been in business?

What are your revenues? What is your growth record? Where will your company be five years from now?

9. How many systems has your company installed?

How many of these were installed in the past six months? How many of your earlier customers are still using—and liking—your systems?

10. Do your financial systems handle unlimited foreign currencies?

Do your financial systems use a common set of currency exchange rates?

11. Can you link my personal computer directly to our central computer—so I can get my own information?

Is that software available right now?

12. How will you make sure our own people thoroughly understand your system?

Do you have educational centers near us, or will we have to travel all the way across the country to find one? Will you be there to help during installation and after?

13. How many of your people specialize in software for my industry?

How many accountants work for you? Human resource specialists? Manufacturing experts?

14. Do your systems have built-in features that make them easier to use?

What happens if someone needs help figuring out a feature? Do you have online documentation that's easy to understand?

15. As my business changes, will your system be flexible enough to change with it?

Or will we have to pay a lot to revamp it? Or even regenerate it?

These questions will help you when you sit down with individual software companies.

They're tough questions. Relevant ones. And any supplier who is worth his salt should be able to answer them without backpedaling.

Ask MSA

We'll answer all these questions to your satisfaction—plus any others you have.

In fact, we're probably the best equipped to answer them. Because MSA is the software company. We offer the most complete line of totally integrated systems in the software industry, including financial, human resource and manufacturing.

So you avoid the headache of trying to tie together individual systems. (And the even bigger headache of adding to them.)

We've planned our growth, and the growth of our products. Instead of

acquiring systems piecemeal, then trying to integrate them, MSA develops each system to work with the others.

With MSA's integrated systems, there's no unnecessary duplication of data or effort. Reporting is faster. All your information is more timely and accurate—and in the form you choose.

In short, we do everything we can to help you make informed business decisions.

Our technical edge comes from experience

- Staying ahead is easier for a company that's steeped in software technology. MSA has spent years developing, refining, testing and enhancing our systems.

This year alone, we'll invest \$25 million to make sure all our systems are technologically razor sharp. That gives us a decided advantage over flash-in-the-pan technology that may not have the bug-free logic of a more

experienced system.

It also gives you a decided advantage over "custom" systems you have to update yourself.

MSA relieves you of that time-consuming burden. We update and enhance your software for a full year. Then we continue this service for a surprisingly low annual fee.

Maintenance includes keeping your system up-to-date technologically. Enhancing it with new features that make it work even harder for you. And making sure it reflects changes in accounting procedures and government regulations, including 401(k), TEFRA, and FAS52.

If we can do all this, you can be sure MSA's software is flexible enough to accommodate changes in your business. You won't have to unexpectedly invest in customizing or completely regenerating your systems when you expand or reorganize.

35,000 days of software training

We make sure your people have a firm grasp of our systems. Last year alone, MSA conducted more than 35,000 student days of customer training for over 1,800 companies. At education centers all over the world, as well as at our headquarters.

From training sessions to cassettes to complete, easy-to-understand documentation, MSA provides the most extensive Customer Education Programs in the industry.

We even do a follow-up audit after installation to make sure you're getting the most from our system.

MSA not only enhances software, we enhance the people who use it. Regular user meetings give our customers a forum to express their likes, dislikes and suggestions. These often lead to new product developments.

Our systems are always ready to HELP

MSA systems are just as friendly as our people. Our online HELP feature actually guides users through our systems. And EASY-SCREEN™ lets them design their own screens without creating data processing nightmares.

If there's ever a question or problem with our systems, MSA customers are always close to service. Our Account Managers are knowledgeable, responsive, and backed by a complete team of industry specialists.

This team is responsible for solving the specific software needs of your

industry. So you'll never get a blank look or an answer that doesn't relate to your business.

The heart of our integrated systems

It's MSA's General Ledger System. Combined with Accounts Payable/Purchase Order Control and our other systems, it gives you complete control over your financial information.

Over 800 accountants, financial experts and programming specialists work together to make MSA's financial systems the most advanced and most highly integrated in the industry.

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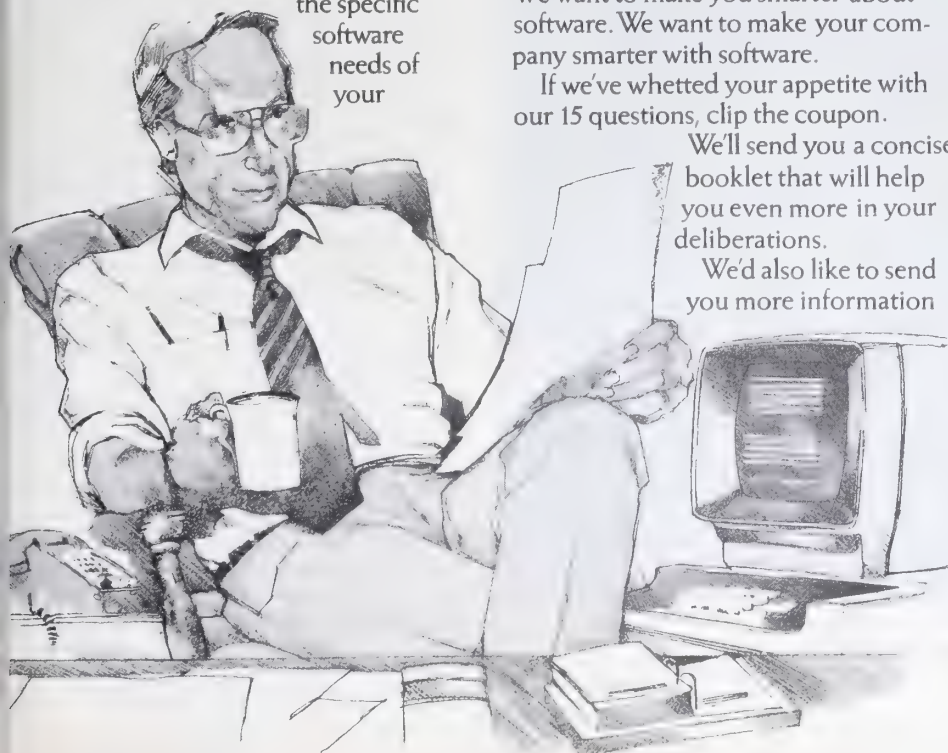
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MSA

The Software Company



The Up & Comers

Kevork Hovnanian had to flee Iraq. He's been running hard ever since as a shrewd and successful home builder.

Small is profitable



Kevork Hovnanian, Hovnanian's president, at one of his southern Florida projects
"Our business isn't to make money on money."

By Howard Rudnitsky

WHILE MANY HOME BUILDERS were retrenching in 1982's devastated housing market, Kevork S. Hovnanian was as busy as ever. Hovnanian Enterprises, owned by Hovnanian and his son, Ara, put up 1,250 single-family attached condominiums and town houses, primarily in New Jersey, Florida and Georgia, to generate revenues of some \$70 million. Hovnanian couldn't stop running. His diligence has made him one of the country's top 80 home builders.

Making it big is tough in any business, but it was tougher than most for Hovnanian. An Armenian, he was born and raised in Iraq and became a successful road builder. In 1959, during an Iraqi revolution, his company was nationalized, and he and his family barely escaped the country with their lives. Hovnanian settled in New Jersey with his brothers. With a \$20,000 loan guaranteed by the in-laws of one of his brothers, the Hovnanians soon plunged into homebuilding, putting up a few houses on spec in Toms River, N.J. They sold at a profit, and Hovnanian's enterprise has been growing ever since.

From the beginning Hovnanian made small, less costly houses his specialty. His first homes contained about 950 square feet of floor space priced at \$18,000 to \$19,000, for a profit of about \$2,000 on each. Similar new houses around Toms River were selling for \$20,000 or more, so Hovnanian's sold quickly. "We had less overhead," he says of his price edge, "and more finesse in selling."

Last year he spent about \$4.5 million on advertising and marketing, a figure that includes—talk about finesse—the cost of building a model home within the Empire State Building to promote a Hovnanian development in Florida. The stunt worked. Last winter hundreds of chilled Northerners signed contracts to buy his two-bedroom, attached condominiums in the Palm Beach and Tampa areas ranging in price from \$38,000 to \$57,000. "Get the sales first," Hovnanian says, "and with the sales you'll get volume and a profit." By such means Hovnanian spends as much as \$3,000 to \$4,000 a home on marketing and advertising.

Another promotional stunt involves a Hovnanian Family Plan certificate, which each home buyer receives. The certificate, transferable to anyone in the buyer's immediate fam-

ily, is worth \$1,000 on the purchase of another Hovnanian-built home within 24 months. "It's a very useful marketing tool and only costs us half as much as other forms of marketing per home," Hovnanian says. Presumably this gets families to continue buying Hovnanian homes.

Hovnanian-built homes remain considerably more compact and have less land than the average 1,600- to 1,700-square-foot homes made by other builders. His prices last year ran from \$38,000 to \$70,000, way below the average for new homes in the U.S. It was that price advantage, clearly, that enabled Hovnanian to prosper during the housing recession.

He also managed, in May 1982, to line up hard-to-get financing from a surprising source. The New York investment banking firm of Drexel Burnham Lambert was impressed enough with Hovnanian to underwrite a public debt issue though his company is privately owned. The financing raised \$23 million through the sale of 12-year, 16 $\frac{7}{8}$ % debentures. If the interest cost seems high, consider that borrowers at the time were paying close to 20% in total charges for short-term construction loans. Moreover, Hovnanian need pay interest on the debentures only for the first seven years of their term, then principal as well. The debentures also enabled him recently to borrow \$45 million of a two-year revolving loan (partially replacing a smaller loan) at today's more favorable rates.

But his nimbleness in the capital markets isn't likely to distract him. "Our business isn't to make money on the money," Hovnanian says. "Our business is to make money in the building business." To do it, Hovnanian drives his employees as hard as he drives himself. To build quality houses for less requires speed and efficiency, and nobody is idle in the Hovnanian firm. "I don't let things just happen," says Hovnanian. "I make them happen. Time is money." He pays subcontractors promptly, but if they don't deliver on schedule, they don't get his business.

Only once, in the mid-1970s, did Hovnanian run into serious trouble. "In 1973," Hovnanian recalls, "I was doing so great, and the fact is I wanted to be the biggest builder in the U.S. I wanted to be on top." He had expanded to Florida in 1970 and Texas in 1973. In 1973 he started building in Georgia and in 1976 in Pennsylvania. By then, however, a recession caught up with the overextended builder, and Hovnanian deemed it prudent to confess to his bankers that he—and

they—were in trouble. The loans he owed were stretched out, and by the end of 1980 he had made good all his debt. During the same period, however, some other builders went under. The experience taught Hovnanian to expand more cautiously and to avoid overreliance on short-term debt.

Hovnanian and his brothers parted ways in 1969, after nine years together. "We had our differences," Hovnanian says. "We decided to stay brothers, but not partners. So we formed our own building companies, and we are all happy we did that." Hovnanian's 26-year-old son, Ara, a Wharton business school graduate, works as his executive vice president.

Hovnanian figures he can manage a 20%-to-25% growth rate for the next five years. By then he probably will have taken his business public; he

already issues an audited annual report. For fiscal 1983 earnings dropped to \$3.8 million, from \$6 million in 1982, but any earnings last year constituted a coup in home-building. Earnings in the fiscal year ending Feb. 28, 1984 should be up nicely.

Builder Hovnanian claims he doesn't need the public's equity money now, and when he does go public he will pick his time carefully.

Hovnanian has traveled a long road from Iraq, where, with a partner, he built and then lost to the socialist revolution a business with half a billion dollars in contracts. Today, as the only member of his family without a college degree, he draws a salary of \$200,000 a year and has a net worth many times that. Why does he keep running? "I love my business," he says. ■

Duke Greene has come a long way since the days when he drove a truck at night to make ends meet. So has his \$12 million computer company.

"I don't want to marry your sister"

By Stanley W. Angrist

LOOK," Marion O. (Duke) Greene Jr. told the federal bureaucrat who had rejected his sales pitches seven times before, "I don't want to marry your sister or eat dinner at your house. I just want you to give my company some work, preferably in computer programming. But if nothing else is available, we will wash windows."

That time Duke Greene's pitch finally worked. He got a keypunching contract and 12 years later is still getting work from government and private business. His International Business Services, Inc. in Washington, D.C. is one of the few computer system design and programming enterprises that is owned by a black. Yet to succeed in the field, Greene, 44, has had to hustle just as hard as he did as an impoverished student at More-

house College in Atlanta. There, with no haircutting experience, he opened a makeshift "barber shop" and promoted business by giving football players free haircuts. He also learned a bit about pricing: for cash customers, 75 cents a cut; for credit customers, \$1.50.

Greene's IBS remains small potatoes in system design. Last year sales exceeded \$12 million, producing pretax earnings of more than \$550,000. This year revenues should exceed \$15 million. "We would be doing \$100 million in sales if I were white," he says, without rancor. "In the early 1970s we couldn't get a decent line of credit. Customers would only hire us to do keypunching rather than programming. But I'm not complaining. If I still lived in Georgia, I would probably be driving a truck."

Greene had intended to become a dentist, but the entrepreneurial bug

The Up & Comers

bit him early and kept interfering. During summer vacations in college he worked as a waiter in an Atlantic City hotel but kept up his haircutting sideline, too. When he wasn't cutting hair or waiting on tables, he drew charcoal sketches of boardwalk strollers for \$3 each. When he found that the hotel's maids routinely discarded used bars of soap from guest rooms each day, he paid the chief housekeeper \$25 to see that the bars got thrown into a barrel Greene had put in the basement. Then he took out an ad in the *New York Times* offering for sale a thousand barrels of used soap. To one of the few callers who responded, he explained that he had sold all but one of the thousand barrels. Having found someone interested in buying used soap, Greene went into business with his caller. They set about melting the soap down, reperfuming it and recasting it into flowers and other shapes.

After graduation from Morehouse, Greene enrolled in Howard University's dental school but quickly learned it was impossible to practice the Greene style of capitalism and learn dentistry at the same time. So he dropped out of Howard determined to learn something useful in business, took a job as a programmer for the Air Force, quit after two years and started a computer firm "by capitalizing it with \$500 and an old Chevrolet." He adds: "I confess that at the time I hadn't the vaguest idea what it meant to capitalize anything."

The financial expertise came fast. In 1970, when Greene got his first small government job, he ran right smack into the problem of cash. "Let's face it," he says. "Nobody was going to lend me any money, so to make sure some cash was coming I drove a truck at night." He also developed a commonsense program of cash management. "First I paid the employees, then the rent, next any taxes due, and finally I would make partial payments on the phone and Xerox bills. If there was anything left, I took it. I found that both the phone company and Xerox were happy if you made a partial payment toward your bills. I never failed to pay all my bills eventually, and I never bounced a check."

IBS today occupies two full floors in a fancy office building on Vermont Avenue. The design and consulting work encompasses a wide range. Greene has acquired several small design firms. One has several contracts to program the training of Army instructors. Another is producing a legal hardware-software package now used by 21 law firms and another package for generating statistical and accounting reports for public housing authorities. Forty-seven authorities now use that package.

IBS' biggest job now is helping the Interior Department set up and run a \$200 million computer system for keeping track of royalty payments owed the government. About 75% of the firm's business comes from the government. Greene would like to cut that to 50%. He's beginning to ap-

proach defense contractors for work. "The key to our success," he says, "is getting out there every day and knocking on doors trying to find places to send proposals."

Along the road to success, Greene has become an equal-opportunity employer. At the beginning 80% of his employees were black. Today only 35% are. "I asked myself, 'Am I running a social program or am I running a business?'" Greene says. "Of course, I want to hire as many blacks as I can, but the nature of our work means that the number qualified to work for the firm is relatively small. And everybody wants to hire those who are qualified."

A capital idea

It's always a problem: how to raise inexpensive capital for a small company without losing control. The local bank is likely to charge interest way above the prime rate, if it will lend at all. Venture capitalists often will grab a controlling interest in exchange for their cash. And not everybody has rich friends or kinfolk. There's always the federal government, of course, but it's often more of a hindrance than a help.

A Senate bill promises entrepreneurs real help. It would make it possible to borrow through the sale of new financial instruments called "small business participating debentures." It's not the first proposal to allow SBPDs, but it's the first that stands a good chance of passing.

A debt-equity hybrid, an SBPD would pay investors fixed interest, now 9%; mature after a specific term; and grant no voting rights. But there's an equity kicker: The SBPD also would guarantee investors a fixed share of the borrower's earnings. And there are tax benefits for the issuer as well as the investor. Although the interest would be taxable as ordinary income to SBPD investors, distributions from earnings would be taxed as long-term capital gains. The corporate borrower, of course, would deduct interest payments. But the borrower would also deduct payments out of earnings. Ordinary dividends paid from earnings are not deductible to the payer.

Right now the Joint Committee on Taxation and the Treasury are trying to estimate how much tax revenue would be lost in SBPDs. If the figure is low enough, the bill is expected to pass handily, and small businessmen will get another weapon to fend off the vultures.—Richard Greene



Duke Greene of IBS
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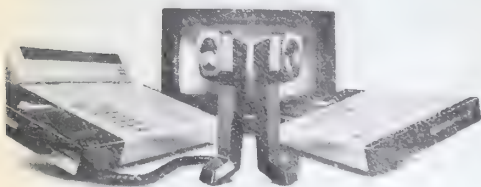


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Sandy Grieve, Economics Laboratory's new CEO, forced the company to take all its lumps at once. Now he's ready to give the competition theirs.

Sloughing off the losers

By Paul B. Brown

WITHIN A WEEK of taking over Economics Laboratory, a specialty chemical maker with sales of \$670 million a year, Pierson M. (Sandy) Grieve shut down one of its operating groups. Next he reorganized another, giving it one more year to pass financial muster. He also disclosed that foreign sales and earnings will have to meet targets, or entire countries will be cut off from EL's line

of dishwashing detergents, fabric softeners, industrial solvents and other products. Strong stuff from a fellow who has been on the job only since January.

One would think that EL must be in desperate straits. It's not. The company, in St. Paul, Minn., has averaged a solid 17% return on equity over the past five years, good enough to place it fourth on that score (behind American Home Products, Procter & Gamble and Clorox) among the six makers

of housekeeping products in the Forbes Annual Report on American Industry (Jan. 3). And over the past five years, in managing to increase sales by 14% a year, EL outperformed the group on that count.

But a closer look shows problems. Profit margins and return on equity shrank, relative to the previous five-year period. Debt has risen. More threatening, the company's biggest markets, restaurants and institutions, have shown slower growth. Even without the costs associated with shutting down the Apollo division, suppliers to the utility and mining industries, EL probably would have earned only \$2.25 or so a share for the year just ended. That would have been the second time in three years that earnings per share did not increase, compared with the year before. Prior to 1981 earnings per share had steadily increased for 20 years straight. With the shutdown of Apollo and the possible discontinuation of some foreign operations, EL will probably show a loss of \$1 to \$1.25 a share in the fiscal year ended June 30.

EL was founded 60 years ago by Merrit J. Osborn, a Michigan salesman. Its first product was a hotel rug cleanser. Grieve, 55, is the first CEO to be neither an Osborn relative nor



Economics Laboratory CEO Sandy Grieve
"We are going to play to our strengths."

a longtime employee. Until 1981 he had been president and CEO of Ques-tor, in Toledo, the automotive supplier and consumer goods company that went private last year.

"A company reaches a point where it needs a new style of management and a new approach," Grieve says. The decision to shut down the Apollo division during Grieve's first week on the job, causing a \$43 million write-off, was "a very easy call," he says. "We had owned it for three years. Clearly it was the wrong acquisition for today. Demand for our products in coal, steel and utility plants has declined seriously and the recovery rate was such that we would never get to a strong return on our investment. Given that, the only question was, what was the best way to exit. Our decision for the writeoff was 100% tax driven." Tax savings will produce a \$30 million boost to EL's net cash flow over the next two years.

The situation at EL's Magnus division, a supplier to the metalworking and pulp and paper industries, less clearly demanded a shutdown. "We didn't have enough hard data to make a decision," Grieve says. "We are going to restructure the division and try a few things. We will know in a year."

Meanwhile, Grieve says, "We are going to play to our strengths," meaning that EL will strive to gain market share in dishwashing detergents and other cleansers sold to restaurants, hospitals, hotels and schools. EL will also expand its consumer products.

In institutional sales, about 100 new salesmen will join the 1,650-man force. They will have new products to sell, such as EL's Solid Power detergent. "The product washes more dishes per pound, so it produces a win-win situation for us and our customers," Grieve says. EL also will introduce a line of chemicals for keeping fast-food restaurants clean.

The high-powered marketing and advertising expertise needed to succeed in consumer housekeeping products presents tougher problems. Among householders EL is probably best known for its Electrasol dishwasher detergent, which is number two, behind P&G's Cascade. It takes a lot of spending just to keep that position. That's one reason why the household division, which accounted for 24% of sales last year, generated only 19% of profits.

"There are 39 separate items that make up the household chemicals groups—everything from laundry detergents to shoe polish," Grieve says. "We can market in that group as well as anybody, but we lack the critical

mass of supermarketers like P&G." The solution? Going after the smaller parts of that market. Grieve won't be specific, but he explains the strategy. "There are a lot of \$70 million markets within those 39 groups. If we could get five new products—one a year—with sales of \$30 million each, we would double the size of the consumer division within five years.

Doing so is critical to the three-year plan that Grieve has just finished. Research and development spending, up 16% last year, will continue to increase. Marketing costs will rise a lot, too. The results will be apparent soon. The first of EL's new consumer products will become available this summer. The second will be test-marketed around year-end.

Grieve says that at the end of three years, EL should be able to produce a consistent 20% return on equity with earnings that grow 15% a year. Because that will require successful new consumer products, of which the majority ordinarily fail, EL can easily not meet those marks. But Grieve believes that shaking up the company has at least laid the ground for success. "We didn't have to do as much as fast as we did," he says, "but we are following a sound business practice. If you are going to have a broken year, you might as well get as much damage in as you prudently can. We are not going to spend a whole lot of management time trying to fix things that are not fixable. We want to spend that time building on our strengths." ■

Remember creative financing? What happens when home sellers want to bail out of those loans they made?

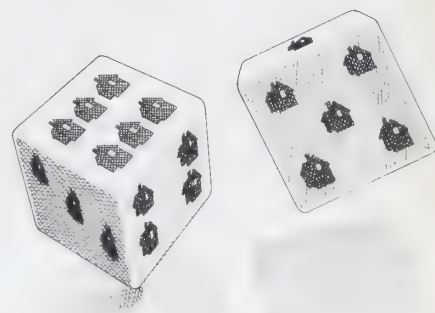
Buyer's market

By Aaron Bernstein

SINCE 1980 SOME \$100 billion in seller-financed mortgages have been issued by homeowners who had to lend buyers a hand when traditional funds went through the roof. Many home sellers didn't really want to be in the mortgage banking business, and have tried to cash out of the below-market loans they made. But banks and big S&Ls won't buy their paper, because it doesn't usually conform to Federal National Mortgage Association standards. That makes it less marketable.

The result is that sellers are at the mercy of a fragmented, chaotic market, where the players are mostly small loan and mortgage brokers who often charge huge discounts to buy out the home seller.

The recent fall in interest rates has brought discounts down from the 30% to 40% range to 10% to 25%. But



the prices offered still differ widely, leaving home sellers unclear as to the true value of their loans.

At the other end of the transaction is sometimes an unhappy neophyte. While the loan sold the house, it can also lose the homeowner the lump sum he would have had in a normal

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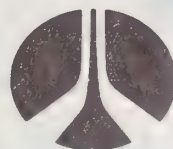
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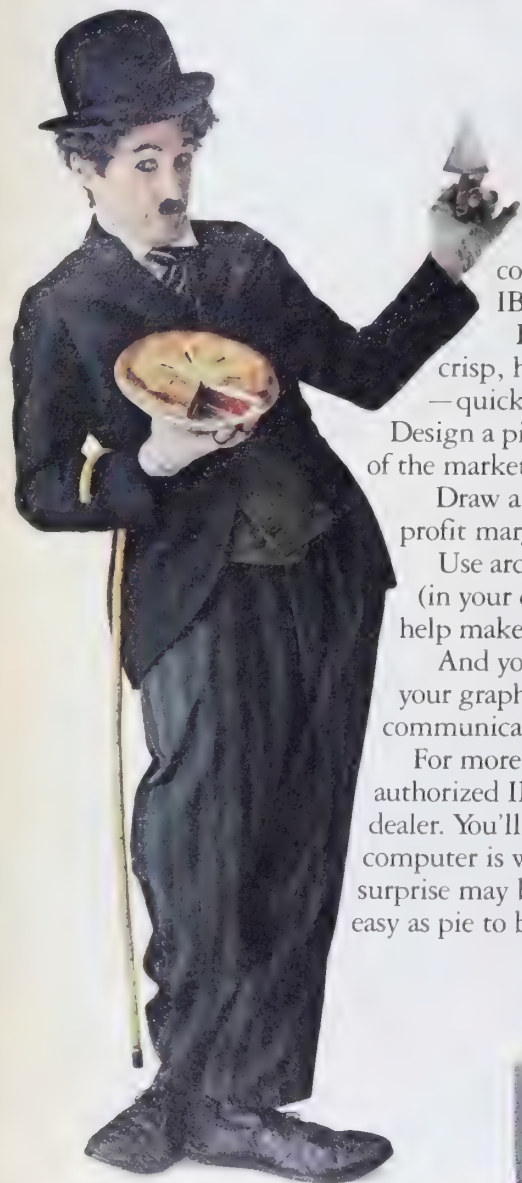


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sale. Worse, he had to take on the traditional worries of a lender. Would the buyer make the monthly payments on time? Would he default? If the seller wants to buy another home, he often has to sell his note for cash.

In the last year national markets have sprung up to bail out homeowners unhappy in the lending business. But because "take-backs" were often written by the homeowner, usually helped by the corner real estate agent, the papers tend to differ. "The people who wrote these contracts didn't package them for Fannie Mae because they usually didn't know what they were doing," says Bruce Dachis of Gate Financial Corp., which buys some \$15 million of seller contracts a year, in Minnesota.

It is often small loan brokers who buy this nonstandard, discounted paper on which credit references might not have been checked thoroughly. The brokers say the discount is tailored to each contract. "The documentation is often bad on seller notes," argues Charles Falck of Perpetual American Financial Services, a small Bethesda, Md.-based company. "Often our piece of the equity in the house only amounts to 10%, which leaves us exposed. So we discount to compensate, with the discounts varying according to the risk involved." All true. So, obviously, it's hard for sellers to know whether they are getting a good deal when there is no usable guideline to assess a fair offer.

Fannie Mae brought some order to this disordered market in June 1982 when it began buying home seller loans from lenders. On Jan. 1 it began buying all newly originated seller-financed loans written on Fannie Mae forms. This has encouraged home sellers and real estate agents to be more careful with their contracts. Says Richard Betchley, senior vice president of Fannie Mae, "I think this has started to bring some uniformity to that market."

"But," says William Segal of The Money Store, a New Jersey lender that has done about \$2 million worth of take-backs since January, "when it comes right down to it, they still don't specify exactly what kinds of nonstandard paper they will buy. We're still a little bit in the dark."

Thus lenders like The Money Store are reluctant to quote standard discounts for loans not written on Fannie Mae forms. They are afraid they will have to take a bigger discount themselves if they have to sell the paper they buy to other investors, like individuals or pension funds.

Not everyone thinks home sellers

Mortgage-peddling primer

The first piece of advice for anybody wanting to sell a "take-back" mortgage is to shop around. The cash payment you can get for your note can vary widely from broker to broker, depending on the local market. So get as many offers as you possibly can. One woman quoted in the *Washington Post* managed to get offers ranging from \$38,000 to \$63,000 for her \$70,000 mortgage.

Check the reliability of the broker whose offer you want to take. You might call local real estate agents; lawyers or accountants to ask about the company. Check the Better Business Bureau, too.

In fact, real estate agents are sometimes the best source for finding companies that buy take-backs in the first place. Often the only other place to find them is the local paper, when they advertise.

Don't confuse the yield on your paper with the discount you have to pay in order to sell it. Alan Turtleaub, chairman of The Money Store, says it is, oddly, a common problem. "The two are related, and both are expressed in percentages. But you can't tell how you are getting clobbered by the yield." The yield is the interest rate the broker wants to make off your loan after he buys it. What you want to know is the discount you have to

take. So ask for a quote on the lump sum you will walk away with after everything is over.

Be sure to find out, right away, about any fees that are not included in the discount. These can include appraisal charges, credit reference checks, closing fees, title or name searches, commitment fees (which commit the broker to buy your contract) or application fees (which are usually forfeited if you later decide not to sell). These items can run into hundreds of dollars and may represent legitimate broker costs. Just be sure that you count them in when you compare offers.—A.B.

have really been losing all that much when they sell their notes at a discount. Says Richard Peach of the National Association of Realtors, "We did a study last year that found seller-

financed homes were overpriced by an average of 16% nationwide." In other words, the seller issued a below-market mortgage but may have jacked up the price of his home to compensate.

However, says Peach, "What we don't know is whether that 16% is equal to the discount people have to take. But if the price was overstated enough, the seller loses nothing." ■

Time was when a promising new employee could become a top executive in a matter of months. No more.

The fast track slows down

By John A. Byrne
and Walecia Konrad

BACK IN THE FIFTIES, when businesses were expanding and managers were in short supply, many corporations set up accelerated training programs. The idea: to spot talented individuals early, give them brief stints at a variety of high-visibility jobs and build a new generation of top managers fast.

Thus was born "the fast track." Former whiz kid Robert McNamara started out that way. So did Bill Agee and David Mahoney. But these days the atmosphere is different, and conventional fast-track programs have

lost much of their appeal.

Part of the reason is economic. The recession put the brakes on growth—and promotions—at many companies, so there is less need to develop experi-



enced executives in a hurry. Also, management development schemes typically involved shifting participants among jobs, and that seldom allowed time to develop at any one position. Worse still, there was so much getting acquainted that fast-trackers rarely had the opportunity to learn from their mistakes. Promotions, meanwhile, were based more on promise than on experience. "A lot of the fast-track rotational programs made people specialists in nothing," says Robert Tomasko of Arthur D. Little.

Then there's the "crown-prince" syndrome. Since fast-track participants are obviously headed for better things, they are seldom popular with fellow employees. "If you're on the wrong side of the fast track, it's also obvious that you're not going to be happy," says Jim Andrews, head of management resource planning at Chicago-based FMC Corp. "It creates animosity."

To avoid these problems, corporations today are opting for more subtle ways of identifying and rewarding individuals with high potential. The current style is to advance at a steady but not speedy pace, with the emphasis on making each assignment worthwhile. That usually means executives who once were on the fast track are now participants in conventional development programs.

"For many superachievers, their mobility was way ahead of their

"For many superachievers, their mobility was way ahead of their smarts," comments Eugene Jennings, professor of management at Michigan State University. "We were burning them out or screwing them up because they were moving faster than their wisdom and maturity could justify."

smarts," points out Eugene Jennings, professor of management at Michigan State University. "We were burning them out or screwing them up because they were moving faster than their wisdom and maturity could justify."

What hasn't changed, of course, is the notion that management development is a crucial investment in the future. Honeywell, for example, puts about 300 people through its programs annually at a cost of up to \$5,000 for each three-week session. Sure, not everyone attends, but the mix is far broader than in the old fast-track days.

At other places the fast track still exists, but no one knows who's on it. On Citicorp's executive floor, not far from Chairman Walter Wriston's office, is a locked conference room where top executives monitor middle managers dubbed "corporate property." The 75 executives in this elite group don't know who they are. Explains a Citicorp official, "We don't want to discourage other people."

United Technologies also keeps a special room with detailed files and succession plans for top performers. Once again, however, the names are so secret that only Chairman Harry Gray and one other key senior executive are allowed to see them. Another Forbes 500 company identifies high-potential executives by color-coding personnel files. Blue indicates a division-manager potential, while yellow means low prospects for advancement. In each case the goal is to avoid creating the problems that accompany old-fashioned fast-track accolades.

Much the same thing happens at 3M, where top managers review the performance of selected lower-level executives annually. The reports, which contain comments by superiors on an individual's knowledge, competence, strengths and limitations, often recommend specific promotions to keep the cream rising to the top. "This insures that management is aware of good employees and watches them," says Christopher Wheeler, executive director of 3M's human resources department. "After the review we'll tell a person we see some high potential in him, but we don't want people walking around thinking they're in a special group."

At American Brands and TRW there aren't even separate background files for high-potential individuals, even though they do get special attention. Senior American Brands officers hold meetings with each subsidiary three or four times a year to discuss management development. Top ex-

ecutives often bring promising subordinates to the sessions to expose them to their colleagues. "When a significant job opens, corporate VPs will remember these up-and-comers and look for them," says an American Brands spokesman. "This is how we start advancing them—but not until they've picked up broad-based knowledge of marketing, manufacturing and finance where they started."

Similar informality prevails at TRW. After spotting a division general manager as high potential during the annual senior management review, for example, the company lays out an informal three-year program to give him broader exposure. "One guy lacked international experience, so we identified a move that would give him a chance to go abroad," says Howard Knicely, vice president for human relations. "In some cases we send people for outside training at Harvard or elsewhere."

In all these situations there are no set timetables, no promises of continued advancement. Do well, and you will be rewarded—but not so swiftly as to make each rung on the ladder little more than a few months' wait for the next move.

This low-key, less formal approach is quite different from those few conventional fast-track programs that still exist. At Pillsbury's Burger King unit, for example, an 18-month regimen leads to one of ten regional general managers' slots or, in some exceptional cases, to the post of divisional vice president. Burger King says it retains more than 50% of the executives it moves through the program, and Jeffrey Campbell, a 39-year-old alumnus, is now chairman and chief executive of the fast food chain.

Still, Burger King officials concede that they have had "difficulties with employees who see the fast-track speedsters pass them by." To minimize conflict they insure that program participants are sensitive to their special position. More important, the company spreads its fast-trackers around to avoid dissension.

Despite the criticism of fast-track programs, few will dispute their effect on recruiting. That's why many companies try to put a fast-track gloss on conventional training programs. Says a Mervyn's spokesman, "This is a good way to recruit because everyone wants to think of himself as a fast-tracker." And why not?

Reality, of course, may be very different. These days there is no magical ticket to the top—short of ability, hard work and a generous dose of good luck. ■

The new brokers: Meet a former Hebrew teacher, a former truck dealer and a former radiologist who rode into Wall Street on the back of the bull.

"Don't let the slam dunks get to you"

By Barbara Ettorre

THEY'RE RUNNING in droves to Wall Street these days. The money to be made has lured novices and old hands alike. Most securities firms have increased their force of registered representatives by about 10% in the past year. Training classes are jammed with expectant faces, many of them graduates of law and business schools, veterans of recession-killed small businesses and laid-off employees of troubled real estate, automotive and electronics firms.

Robert Johnson, a Dean Witter broker near Santa Barbara, Calif., is typical. He liquidated his truck dealership in 1980. In the beginning he made 70 cold calls a day to prospective customers found in the cheapest prospect list around, the telephone book. Johnson, 40, learned the market the hard way: "I've probably lost \$500,000 trading for my own account over 16 years," he says.

For would-be brokers shut out of jobs in the dismal stock market of the 1970s, the new bull market offers not only jobs but a diversity of financial products to sell. "You have to be a hell of a lot smarter these days," a veteran broker says. "In my day there was only one product: stocks." Today brokers are pushing insurance, credit cards, second-mortgage loans, put

and call options, options on commodities futures, new mutual funds, individual retirement accounts. Brokers today, in Wall Street's buzz phrase, purvey "financial services."

But the broker's workaday world, alas, remains much the same as always. It's constant telephoning, as

many as 200 calls a day, to customers and prospects whose interest and expertise in financial matters ranges from nonexistent to superior. There are still a lot of "slam dunks," when prospects abruptly hang up. "You can't let the slam dunks get to you. Don't take them personally," says Craig Noble, 29, an ex-construction supervisor and ad salesman, now turned broker at E.F. Hutton in New York. "I make 60 cold calls a day and work with a headset. It's a game. I look like a telephone operator."

It may seem like a game now. But no bull market lasts forever. Wall Streeters with long memories know from experience that many of today's brokers won't be in business five or ten years from now. Jobs swell and shrink like the stock market's gains and losses. According to the National Association of Securities Dealers, the prior peak number of registered representatives authorized to sell securities was reached in 1973 at 209,000. It slumped to 184,000 in 1979 and rose to 240,000 last year. This year the number is running at 250,000. Enrollment

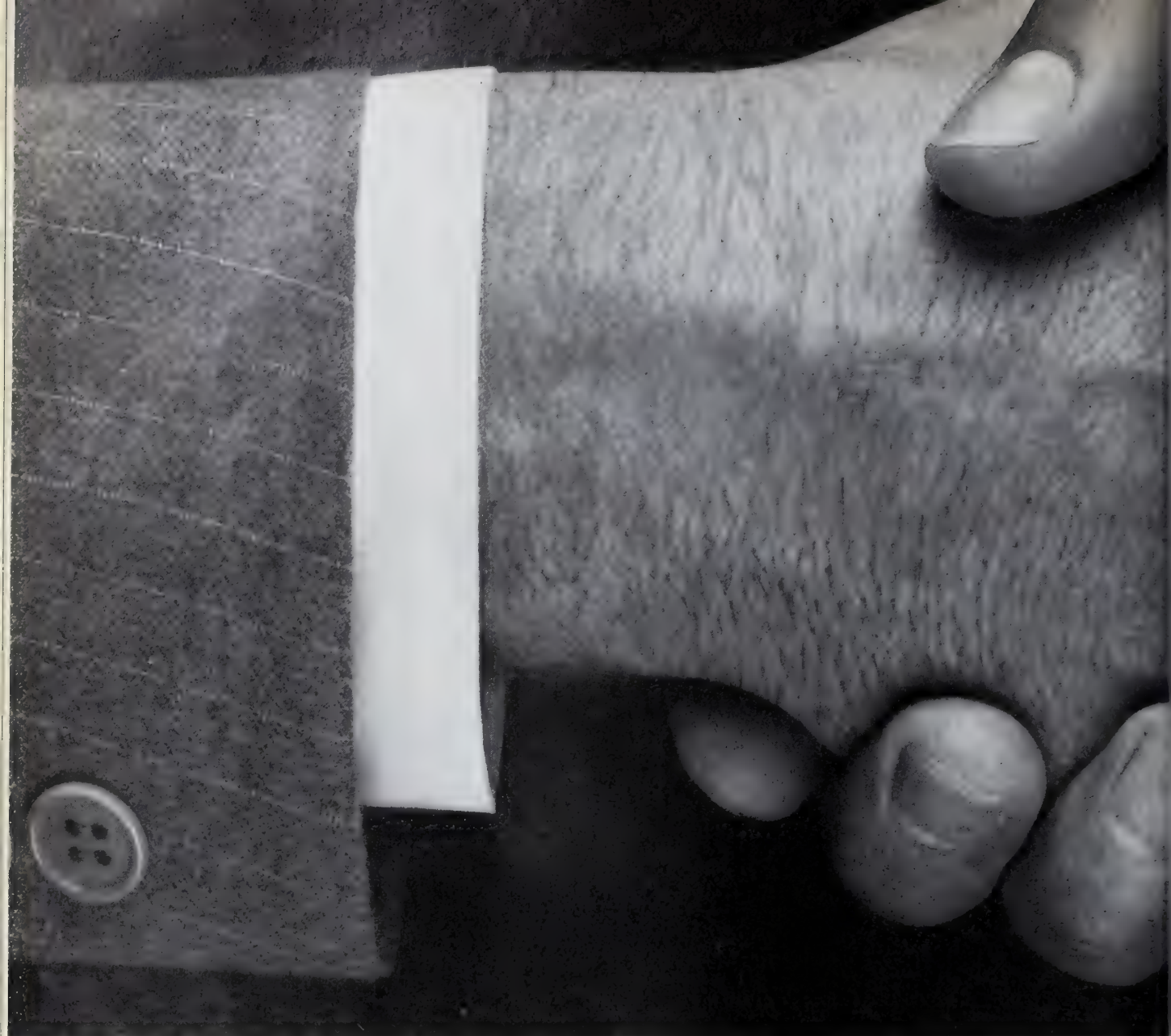
for the General Securities Registered Representatives Examination—better known as the Series 7 test, which qualifies an individual to sell the basics: stocks, bonds, some tax-shelter packages, options and warrants—is running 42% above the 1981 figure and double that of 1980.

Kent Van Gundy, 27, is one of those shut out of the market a few years ago who has returned on the back of the bull. Van Gundy, now a broker in E.F. Hutton's Bloomington, Minn. office, was working for Bache as a broker and left for 11 months. "I entered the market in 1979 during a volatile time, during the Iranian oil crisis and the Hunt brothers and the silver debacle. When the market went to 1100 last year, I wanted to be there again."

Elihu Martin, after 18 years in mutual funds, joined Shearson Hayden Stone because his regional vice presidency at American General Capital Planning vanished in the 1974 recession. In 1976 he went to a family business, rejoining Shearson/American Express last April as a broker in Springfield, Mass. He



Newly minted brokers on Wall Street
"Firms want people who look sterling."



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finds that the business has changed in some ways. "I'd say the newer brokers are 100% better trained than the ones who left this business and didn't return," says Martin, 55. "There's much less kidding around now. The public is much more aware of the market now and is looking for quality, not crapola."

So, it would seem, are the brokerage houses. Training executives assert that more applicants are older, experienced in sales or finance, possessors of

advanced degrees and generally "more mature" than candidates in past bull markets. Jerome J. Donovan, director of training at Merrill Lynch Individual Services Group, says that most of the firm's 1,800 account executives had jobs before joining Merrill.

Donovan insists that the volatility of broker employment is a thing of the past. "An account executive working five years or more averages \$350,000 in annual business to the firm, and about 40% of that goes back to him or

her," he says. "We have to see them through any softnesses. They are financial money managers, not stockbrokers. Up and down markets shouldn't make any difference."

William A. Rini, vice president of development at the New York Institute of Finance, which conducts training classes for Series 7, says the days when brokerage firms would hold open house at local Holiday Inns and corral prospective brokers as they walked in the door are long gone. "Firms want people who look sterling," he says.

Which often means fewer untried people. For Priscilla Parke's training class at Shearson, only 27 of 3,000 applicants got accepted. Parke, 32, had eight years' management experience in retailing and textiles.

Allison Fillmore, 25, who operates from E.F. Hutton's Denver office, is a graduate radiologist who applied for a broker's job in 1980, was rejected because of her lack of sales experience, went to a smaller firm as a sales assistant and eventually became an E.F. Hutton broker last year. "The day the market hit a high last September was the first week I was in New York for training," she recalls. "I wanted to stay there forever." She says she netted \$22,300 in salary and commissions from January through May and is now on full commission. She works weekends toward an economics degree and is studying for her certified financial planner's license because "I'm in this for the long haul."

Long it is. New brokers often get to the office before 8 a.m. They often skip lunch. They play racquetball or they run to relieve pressure. They read reams of analysis and economic reports. During market hours they glue themselves to the phone. Joseph Pramer, 25, leaves his Norwalk, Conn. home at 6:45 a.m. to arrive in E.F. Hutton's New York office by 8:30. "I started out making 75 cold calls a day," says Pramer (who lived on a "bread-and-water" salary at first, selling dictation products door-to-door to gain sales experience). "The pressure can get to you after a while. But three, four, five, ten years from now, it all will be worth it."

Nobody wants to talk about the inevitable fallout. Understandably. During the 1979-80 bear market nearly one of every five Merrill Lynch brokers got out of the business. Even now at some firms yearly turnover approaches 25%, as cost increases raise productivity standards. Brokerage executives dislike discussing such matters and prefer to talk enthusiastically over their training programs and

"It's just another ball club"

To hear Gerald Hannahs tell it, the brokerage business has treated him a lot better than baseball. Hannahs, 30, signed with the Montreal Expos in 1974 as a lefty. He and his knuckle-curve saw little action and got traded to the Los Angeles Dodgers in 1977. His arm went out, but he still wound up with the Minnesota Twins four years later. During spring training in 1981, he injured his leg. Finally, he went to the Toledo Mud Hens, a Twins Triple A farm team.

Hannahs wanted no part of a minor league career and decided to find another line of work. "I was hired by E.F. Hutton in March 1982," he says. "I looked at it as just like going to another ball club. They were well able and willing to train me." Hutton wasn't taking on a rank amateur. From the time he was in the sixth grade, Hannahs had played the market with the help of his furrier father, himself a market dabbler, and Hannahs had built \$5,000 in savings from a paper route into \$30,000 by the time he went to the University of Arkansas to major in investments and finance.

Hannahs appeared for training at Hutton's main office in New York July 1 last year. "I started Aug. 9, just before the market exploded," he says. "That was my first day of production back in Hutton's Little Rock office. It was incredible."

Hannahs now keeps his euphoria in check, even though he estimates that so far this year he already has earned five times his biggest previous annual salary (\$26,000-plus with the Dodgers). "This market isn't done by any means," he says. "But the easy pickings are finished. I am protecting my profits." For Hannahs this means trading for short-term gains. If the market



E.F. Hutton broker Gerald Hannahs
Polishing a new pitch.

turns bear, he'll follow the charts (Newton Zinder, Hutton's chief economist, was "the biggest joy" for Hannahs to discover) and look mostly for dividends and growth, not speculation. "I don't want to put some 75-year-old lady in a brewery stock that trades 1,200 shares a day on the Philadelphia Exchange," he says.

Hannahs does consider the possibility of not doing well, which he experienced in baseball. "I've been dealing with that kind of thing all my life," he says. "I've had to put my numbers on the board for a long time before this. I hope I would quit this game before being let go. But I'm not worried. I'm positive I'm going to succeed. I'm coming into the office and catching people on the phone at 7 to 7:30 in the morning, when my colleagues are still reading the *Wall Street Journal*." But Hannahs still plays ball, occasionally—on Hutton's pickup softball team.—B.E.

diversity of products.

These, even in a bull market, aren't always easy to sell. As of early June Janine Kebba, 28, a Merrill Lynch broker in New York, had dug up only 12 "prospective" clients since she got her job in January. But, she says, "I will be using a large amount of their money to invest." Kebba had helped manage money market funds for several other securities firms before joining Merrill.

Ten months' work has produced 80 to 90 clients "investing four figures and up" for Jerome L. Blum, 30, a Prudential-Bache broker in New York, who, among other things, is a cantor and former teacher of Hebrew. "I will have doubled or tripled my teaching salary by the end of my first full selling year," he says.

Merrill Lynch broker Richard Rock-off, 25, equates his performance with the mock trial work he did while getting his law degree: "I'm always in front of a jury." Or, at least, that's what it seems like after one month in the business. "I can't be everything to everybody, but I can be everything to a few." He means he has a lot of investment products to sell. Neophyte brokers talk diversification with the aplomb of seasoned portfolio managers. "I would like to do less in equities and do most of my money in commodities and futures," says Kevin Sheridan, a 28-year-old M.B.A. who was administrator of Booz Allen & Hamilton's retirement plan until he joined Shearson last January.

Victor Alibrandi, 34, Sheridan's colleague a few desks away at 60 Broad Street, had sold microfilm systems for Eastman Kodak and textiles for Cranston and operated his own microfilm service company. "There are 200 financial products here," Alibrandi says. After working the phones for only four weeks, he has ten clients. "I'm jabbing away," he says. "I'm going after friends and sending out announcements. That has class."

Randall W. Hess, 38, an ex-Prudential insurance sales manager, now a broker in Prudential-Bache's Omaha office, estimates only 25% to 30% of his income is derived from buying and selling stocks. The rest comes from other instruments. "This year my income will be three times what I earned at Pru," he says. Will he top the \$63,000 average income earned by brokers last year? Maybe not, but he expects to be near the top of his training class in earnings this year.

For Hess and thousands of new brokers who have experienced nothing but the good times, the market, as always, will have the final word. ■

From atop PNC Financial Corp., Pittsburgh still looks like the City of Champions.

Pittsburgh's other bank

By Carol E. Curtis

ON THE FACE OF IT, the news out of Pittsburgh could hardly be worse. Unemployment nearly 17%. In the steel industry, 53%. Steel's decline was a factor in the bankruptcy of some of the city's best-known companies, like rolling mill maker Mesta Machine.

But on the 30th floor of the downtown headquarters of PNC Financial Corp. (the holding company formed by the merger of Pittsburgh National Corp. and Provident National Corp.) the prospect is dazzling. Across the way, PPG Industries' new headquarters, a silver spire of mirrored glass designed by Philip Johnson, is going up. Around the corner, Oxford Center, a glass-enclosed shopping mall and office tower, rivals Houston's more famous Galleria. Across the river, Station Square, a new cluster of shops and restaurants, has the charm of San Francisco's waterfront. Blue-collar Pittsburgh may be waning, but white-collar Pittsburgh is on the rise. So there is enough affluence to fill the new shopping malls and the new office buildings.

PNC Financial Corp. is part of this spectacle of economic renewal. In fact, it is one of the biggest bank success stories in the country. Not only has it bucked the city's depressed economy, it has done it so dramatically that some experts regard it as one of the best-performing banks in the country.

"I could rave on and on about what a terrific bank it is," says Thomas Hanley, head of Salomon Brothers bank securities department, a man hardly given to gushing. Based on eight key ratios that measure credit quality and expense management,

Hanley ranks PNC in first place among 35 leading U.S. banks. "A great organization," says Jim McDermott, senior vice president of Keefe, Bruyette & Woods. McDermott cites PNC's tight management, particularly its control of expenses and low overhead, and its high cushion against potential loan loss—1.35% of total loans, well above the industry mean of 1.03%.

But wait. As everyone in banking knows, Mellon is the name to know in Pittsburgh. With \$25 billion in assets, Mellon ranks as the country's 12th-largest bank holding company. PNC, with \$12 billion, is a mere 26th. Mellon long ago sewed up Pittsburgh's biggest companies as its most valued customers.

True, Mellon is the yardstick against which PNC has always been judged. Ironically, that may be what got PNC where it is today. For in its early days (Pittsburgh National Bank was founded through a merger in 1959), PNC was effectively screened from Pittsburgh's corporate giants by Mellon. So it was forced to be more aggressive in developing other companies. Today Mellon is still a first-class bank. The tough competition has instilled in PNC people a "siege mentality" that has served PNC well. "Our aim is not to pass Mellon in totals," says PNC Chief Executive Merle Gilliland. "It is to do everything that they do, better."

When Gilliland, 61, became CEO 11 years ago, he set about wooing the city's thriving middle market: companies with \$5 million to \$150 million in sales, which Mellon left largely to him. He also broadened the bank's customer base: Some 60% of its loans are to companies outside Pittsburgh. All of which has shielded PNC from

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MT - Please see me re changes ASAP! c)

	1981	1982	% Total	% Region
Product X	19434	209	8.1	20.9
SubTotal:	19410	19.4	9.3	19.4
Region South	10309	10.2	2.1	5.1
Product A	4437	18.1	7.6	4.1
Product B	16576	22.1	1.7	9.3
Product C	3940	9.3	41.9	21.347
Product D	20508	21.347	96499	96499
Product E	6984	19.6	17.7	13.0
Product F	5076	13.0	2.7	18.6
SubTotal:	1115	8.9	3.2	19.2
Region West	7050	31.2	3.4	16.9
Product A	3112	19.2	100.0	37209
Product B	22471	14.53	11.57	9.134
Product C	1157	9.134	16002	107
Product D	22484	66514	10.2	40.2
Product E	27.2	100.0	11.3	41.5
Product F	25998	95647	250243	
SubTotal:	25998	95647	250243	
Grand Total:	250243			

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REGION	1981		1980	
	SALES	TOTAL	SALES	TOTAL
EMT				
PRODUCT A	2013		1944	
PRODUCT B	1079		1510	
PRODUCT C	307		1180	
PRODUCT D	425		437	
PRODUCT E	1743		1636	
PRODUCT F	397		296	
PRODUCT X	2347		2996	
SUB-TOTAL	9444		9714	

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REGION	1981		1982 PROJECTED	
	SALES	TOTAL	SALES	TOTAL
EMT				
PRODUCT A	2013		2002	
PRODUCT B	1079		1420	
PRODUCT C	307		1634	
PRODUCT D	425		307	
PRODUCT E	1743		1970	
PRODUCT F	397		4123	
PRODUCT X	2347		2476	
SUB-TOTAL	9444		10630	

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	CULTI-MAYOR	PITCH FORK	HOE
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50%	300	600	100
75%	320	715	415
SAN FRANCISCO			
25%	400	100	100
50%	700	100	100
75%	700	500	100
SFC	1000	475	165

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Merle Gilliland, chief executive of PNC Financial Corp., with the Pittsburgh skyline
Out from under the long shadow of Mellon.



the problems of Pittsburgh's ailing smokestack giants.

For PNC's board Gilliland systematically sought out not the top man at Pittsburgh's biggest companies—Mellon had been there first—but a key number two executive and possible heir apparent. His judgment paid off. PNC's blue chip board now includes 15 top Pittsburgh executives, like Douglas Danforth of Westinghouse and James Lee of Gulf Oil.

Gilliland learned the hard way how important it is to cultivate people like that. The son of a house painter from Pitcairn, a Pittsburgh suburb ("It died when the railroad left"), Gilliland worked his way through accounting school at Pittsburgh's Duquesne University. He joined the Pittsburgh National Bank three decades ago as assistant comptroller after a brief stint of teaching at Duquesne.

Gilliland hasn't shed all of his working class origins. His folksy manner belies his elegant surroundings and impeccably cut suit. But he knows what makes a top executive click. "The way I manage," he says, "is to surround myself with good people. Then I let them make the decisions themselves."

His group of senior managers, mostly in their mid-40s, were

by him when Gilliland became chief executive. This team has led PNC into unique areas for a regional bank. Vice Chairman Tom O'Brien, 46, heads PNC Merchant Banking Co., the first such capacity set up formally by a regional bank. Executive Vice President Gerry Alifano, 44, opened an office for PNC in Paris, likewise the first ever opened there by a regional bank.

Gilliland runs a tight ship when it comes to finances: "We are conservative in lending, and we keep our assets as lean and clean as can be." He means that, unlike many banks, PNC carefully researches an entire industry before lending to individual companies in it. It then approaches only the most promising and solidly established companies, hence the least likely to default.

PNC's unusually strong balance sheet is matched by high profit margins: Return on assets, at 1.11%, is the fifth-highest in Salomon Brothers' listing of major banks. "In areas that are not a function of the economy," says Salomon Brothers' Hanley, meaning mainly PNC's noninterest income and expense, "it is clear that they [PNC] have done a much better job than anybody else."

Hanley also praises Gilliland's deci-

sion to merge with Philadelphia's Provident National Bank last year, the first major merger since the change in Pennsylvania banking law. Provident, like Pittsburgh National, had been one of the state's best-performing banks and brought \$21 billion in trust business to PNC, giving it the third-largest trust department in the U.S., behind J.P. Morgan and Bankers Trust. Despite Provident's reputation as a sophisticated bank, the merger was consummated for a relatively modest sum: \$600 million.

What is the downside for this much-praised bank? One that affects the industry generally: Despite the economic recovery, corporate loan demand continues to remain weak, especially in Pittsburgh.

Still, Gilliland is far from worried. Pittsburgh, with 40% of his loans, is still the third-largest corporate headquarters city in the country. PNC finally has a relationship with every major corporation in the city, including PPG. That gives Gilliland obvious satisfaction as he watches the skyscraper going up outside his window. "We used to be called the City of Champions," Gilliland recalls, in a voice still husky with the accent of blue-collar Pitcairn. "We'll get back there." ■

Mary DeSapio
First Vice President
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Audi: the art of engineering

AMERICA'S NEWEST CASTER: ACTIONS SPEAK LOUDER THAN WORDS.

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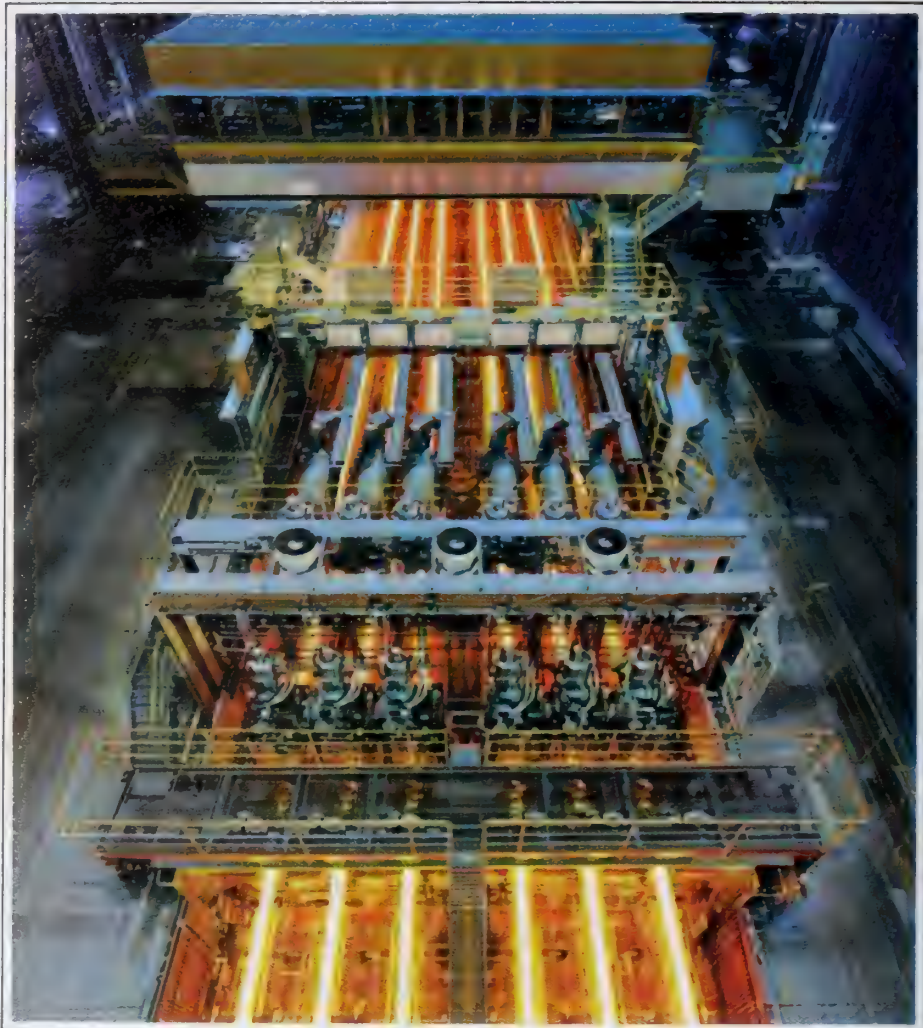
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At U.S. Steel, our commitment is more than verbal. Steel is our last name, but it is our first priority.



Taxing Matters

A decade ago private foundations were commonly viewed as evil tax dodges. Now they are the venture capitalists of charity.

Shoring up foundations

By Jayne A. Pearl

PRESIDENT REAGAN's blue-ribbon Task Force on Private Sector Initiatives loves private foundations. Its seven-month-old report praises these tax-exempt groups as the venture capitalists of charity. But there is one obstacle in the government's new effort to encourage such creative philanthropy: Back in 1969 Congress cracked down on foundations to stop their use as tax dodges.

That tough stance is at odds with the task force recommendations, and there is growing sentiment on Capitol Hill in favor of easing the 1969 restrictions. Among the most onerous:

1. Limiting gifts to private foundations to 20% of a donor's income, even though no such rule applies to contributions to public charities.

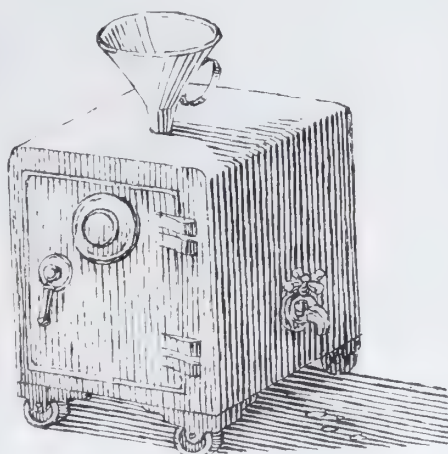
2. Levying an unusual excise tax on private foundations to cover IRS auditing costs. This charge was reduced from 4% of net investment income to 2% in 1978, but it still brings in more money than the IRS spends each year to regulate exempt organizations.

3. Imposing a payout rule that forces foundations to make grants. Liberalized in 1981, this provision requires that annual charitable contributions reach at least 5% of total assets.

It's still too early to guess how these restrictions might be relaxed. Indeed, some critics still harbor healthy skepticism about foundations altogether as vehicles for philanthropy. "What the private foundations don't say is that they have assets of \$48 billion, and only \$3 billion a year—6.3%—is getting out into the charitable world," argues one con-

gressional staffer. "How many donate more than the required 5%, and where's the money going?"

There are other objections, too. Critics of the nation's 22,000 private foundations claim that too many grants wind up being paid out to established charities rather than to newer, community-based groups, as the Reagan task force envisioned. "Many foundations today are tied to



the elite academic world," says Robert Bothwell, head of the National Committee for Responsive Philanthropy. "They'd rather work with academics than with activists."

Recent research by the Foundation Center, a clearinghouse of grant-making data, seems to back that up. It found that last year 42% of private foundation grants went to established educational institutions and another 16% went to cultural and religious groups. Only 18.5% went to direct service agencies. If that's an accurate picture, foundations may simply be another layer of administrative costs

in a charitable system that is already top-heavy and inefficient.

So the debate rages on. The organizations that will be affected most are not such large, well-known entities as the Ford and Rockefeller foundations. Instead, easing the current rules will have the greatest impact on thousands of smaller, family- and company-backed foundations that support the causes everyone else forgets.

The likely outcome: Expect the Administration to make a strong case for small foundations as a sort of venture capital system to serve specific local needs. It's all part of the general Reagan goal of moving power away from bureaucrats and administrators and closer to the people. "Private foundations could be the perfect bridge between the public and private sectors," says Joseph DioGuardi, a partner at Arthur Andersen & Co. "It's possible, however, that the folks who run them are not taking enough risks because they are intimidated by the tax rules."

Easing those restrictions is a contribution that could benefit everyone.

No kidding around—or else

So you have heard that the tax court often can be kinder to the taxpayer than it is to the IRS, and you are thinking about contesting an IRS decision. Think again. Thanks to Congress, tax court judges can now award the government up to \$5,000 in damages from the taxpayer who takes a case to tax court and loses. The damages used to be limited to \$500.

Sound unfair? Actually, the taxpayer with a reasonable case who wants a prompt decision may benefit. This new rule was designed to discourage tax protesters who regularly file fanciful claims to delay payment. "They were jamming the courts," says one Washington tax attorney. "The judges got angry."

According to former IRS Commissioner Mortimer Caplin, now of Caplin & Drysdale, Chartered, the new fine won't be applied to most cases brought to the tax court. "They have to be pretty far-out cases before you trigger the penalty," he says.

What's far-out? The taxpayer will have to decide that for himself. There is no legislative comment to guide the IRS and the tax court in their application of the law. "There is some possibility," cautions Robert Ras, assistant general counsel for Arthur Young, "that if you argue a particularly novel point of view, the government may claim you have a frivolous suit and seek the penalty."—Neal Koch

Can Willie and Vaughn and the boys get Harley, the last American motorcycle company, back on the highway?

Thunder road

By Steve Kichen

WILLIE, the vice president for design, is a biker—as in long hair and beard, leather jacket and big Harley-Davidson. Vaughn Beals, the chairman and CEO, is a grandfather, 55, who would look more at home behind a high school principal's desk than on a motorcycle.

Both men, and many of the executives they work with, have sunk all of their pride and a lot of their personal fortunes into rescuing the quintessential American bike, the Harley-Davidson, from the scrap heap. The first time Vaughn got on a Harley, grins Willie, "he was like a 16-year-old who just got his license."

For Willie it's more than pride or livelihood. His last name is Davidson, as in Harley-Davidson Motor Co. His grandfather cofounded the company in 1903. His father took it public in 1965, and AMF bought it in 1969. Willie, now 49, has worked there most of his life. "I'm one of the few people fortunate enough to be able to marry my interest," says Willie. His wife and children ride Harleys, of course.

He and Vaughn and the others bought back the company in a leveraged buyout for approximately \$80 million two years ago. AMF had run unit sales up but also threatened to run the company into the

ground by not investing enough in new tooling. As *Cycle World* put it, "Some of the hardware found on Harley-Davidsons looked as if it were hammered out of iron ore by rock-wielding natives along the shores of the Milwaukee River."

The name Harley-Davidson has always been synonymous with a heavy, powerful, macho sort of bike. If it was ponderous, noisy and left something

to be desired in handling and suspension, so much the better: "This bike is not for wimps and little kids. This bike is for driving through brick walls," roars William (Wild Bill) Groth, a former Harley owner. So obsolescence did not matter, as long as the Japanese were busy in non-Harley markets. Their cheaper bikes were converting college kids and other nice people who would have been afraid or thought it too scandalous to ride a Harley "hog."

But AMF stayed too long with slow, costly hand-machining of its motors, while the Japanese geared up for low-cost volume production. And it didn't respond fast enough to the Honda Gold Wing, which appeared in 1975 with a host of innovations. That became the new standard in the "dressed-up" touring market formerly dominated by the "hogs."

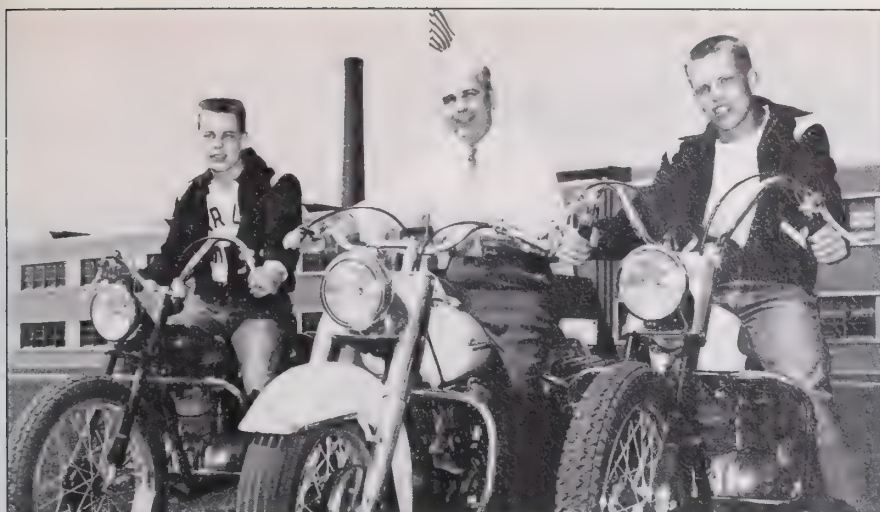
By 1981 AMF saw the handwriting on the wall. That year new Hondas and Yamahas took dead aim at their market, offering V-engine look-alikes with modern goodies the Harleys didn't have: shaft drive, water cooling, advanced suspensions and digital readouts. They were also better made—and had price tags averaging \$1,500 less than, say, Harley-Davidson's \$4,100 popular XLH Sportster.

The new owners were well aware of the impending disaster. Vaughn had been gritting his teeth and running the operation for several years. But things quickly went from bad to desperate. The new, big Japanese bikes, from zero in 1980, won an estimated 19.4% of the heavyweight V-engine market in 1982. The recession hit, and the Japanese, confronted with a 1½-to-2-year inventory they couldn't get rid of, cut prices below anybody's cost. Harley's share of the total heavyweight market dropped from 20.4% in 1979 to 14.3% on 1982 sales of an estimated \$200 million. They lost around \$1 million before writeoffs.

Management knew what had to be done. At the factory they have cut their break-even point from 53,000 to 35,000, instituted near-Japanese levels of quality control and increased R&D as much as they dared. Har-



Vaughn Beals and Willie Davidson
Uneasy riders in a race against time.



Willie Davidson (right) and his father and brother (both retired), early 1950s
It helps to have motorcycles in your blood.

ley eked out a small profit in the first quarter of 1983 and is expected to break even for the year. To buy time in the marketplace, they got a temporary additional tariff out of Washington—maybe it got more notoriety than it deserves—that starts at 45% and drops to zero in 1988. No cure, but a sporting chance.

The new Harley FXR series, released in 1982, gets high praise from motorcycle magazines—rare for Harley in the AMF past. Willie and Vaughn are now working on a stream of upgrades for other models.

And they have one big advantage: staying in very close touch with their clientele. They have the well-coordinated Harley Owners Group (H.O.G. for short). Davidson, Beals and other key Harley executives bike to motorcycling events and dealers around the country. "I can't imagine the president of Honda touring the country to find out what people think of his bikes," says Willie.

It helps to have motorcycles in your blood. "This is an irrational, emotional, hobby, sport-type business for which you need a sixth sense," sums up Willie Davidson. By which he means cycles are cyclical, seasonal, highly competitive and vulnerable to changing style, taste and technology. And that's in the good years.

Davidson shows a visitor into his cork-paneled, memento-decorated office in Harley's third-floor design studio. It looks like a motorcyclist's fantasy. ("I like working in the dark," he says of the black venetian blinds.) He lays out the strategy and the problems, which are big. Harley badly needs a brand-new model in both its traditional market and the 750cc to 900cc bikes, the next smaller and less-expensive range below the "hogs."

And it must have a powerful, high-volume-production, low-cost engine.

The model is already there, still carefully under wraps and dubbed NOVA. And Harley even has the engine, designed by Porsche but not yet produced. "This bike will get us a bigger piece of the market," says Willie. "NOVA more than matches the Japanese." The Porsche engine is a godsend: It saves years of design time

and is something Harley's market will buy. "There are a lot of guys who would rather chop off a finger than ride a Japanese bike," says an understandably biased Harley parts-manager about Japanese-built engines.

There's just one problem: where to get the \$15 million to \$18 million to put NOVA out onto the streets. And get it fast because, if the check came tomorrow, it would take two years to get the new bikes into Harley showrooms. The five-year tariff is on a sliding scale, and the minutes keep ticking away on Willie's Harley-embellished custom quartz Omega watch. Their personal fortunes don't extend to another \$18 million.

If they solve that problem, Willie Davidson and Vaughn Beals will put their machines back into close contention and cut the price premium down to what they think the product deserves. Until then, they have to be rated a long shot. Maybe a very long shot. Willie fiddles with a heavy gold ring that might imprint the Harley-Davidson emblem on some Yamaha dealer's jaw if Willie weren't a soft-spoken family man. He remembers jumping in two years ago with no certainty that they could get as far as they already have. ■

If you think the breakup of AT&T means opportunity for telephone equipment makers, think again. The market is already overcrowded.

Shakeout in progress

By Jean A. Briggs

THERE'S LOTS MORE MONEY yet to be lost in the telecommunications industry. Sure, the industry is appealing. It is huge. Nearly \$4 billion worth of telephone switches alone were sold last year, to say nothing of transmission equipment, earth stations, cellular radios. It is glamorous. It seems to be wide open with the AT&T breakup. And it is growing—perhaps not as fast as in the early

years of competition, but there is plenty of equipment out there that needs replacing as automated work stations displace telephones and typewriters in offices around the country.

But for a good many companies the promise of telecommunications, specifically of the switch business, will probably prove illusory. Indeed, the shakeout has already begun.

TRW, for example, which purchased Vidar back in 1975, dropped out of the business this year (see p.

Guess who just bought a computer?



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Will today's winners be tomorrow's?

There is no standing still in the telephone-switching business. Below, market share data from 1980 and 1982 for the top companies in five market segments—key systems, small,

medium and large PBXs and digital central office switches. Note the changes over two years. Next year the names and numbers could well be different.

Supplier	Key telephone systems		PBX		PBX		PBX		Digital	
	1980	1982	under 100 lines		100-400 lines		400 + lines		central office	
			1980	1982	1980	1982	1980	1982	1980	1982
Western Electric	54%	39%	25%	7%	51%	33%	60%	29%	0%	0%
Northern Telecom	2	3	6	4	5	13	14	23	45	60
Rolm	NA	NA	8	11	17	20	5	9	NA	NA
Mitel	NA	NA	21	36	.	2	0	0	NA	NA
Siemens	NA	0	9	10	3	4	0	.	NA	NA
Fujitsu	NA	NA	5	6	3	6	0	0	NA	NA
United Technologies	NA	NA	.	0	.	1	2	9	NA	NA
Plessey	NA	NA	.	.	0	0	0	0	22	16
ITT	17	19	.	4	.	0	.	0	12	8
NEC	4	5	3	5	2	3	3	8	12	10
TIE/communications	8	16	NA	NA	NA	NA	NA	NA	NA	NA
Iwatsu	3	6	NA	NA	NA	NA	NA	NA	NA	NA
Others	12	12	23	17	19	18	16	22	9	6
Total	100	100	100	100	100	100	100	100	100	100

*Less than 1%

Source: Northern Business Information

102). More recently Rockwell International decided to get out, looked for a buyer for a chunk of its Wescom subsidiary, which it purchased in 1980, and when one didn't materialize, closed the doors.

General Dynamics did find a buyer when it decided to exit the business. It sold most of its Stromberg-Carlson unit to United Technologies, which in turn sold the central office portion of SC to Britain's Plessey.

Another dropout was Datapoint. It had announced its intention to produce a digital switch three years ago and put together a special team to develop it. But the company threw in the towel in May. (To date, despite all the talk about the coming together of telephones and computers, no data processing company has succeeded in the switch market, and no telephone equipment producer has succeeded in data processing. One of the few companies equally strong in both of these areas is Nippon Electric, but, as Francis McInerney, vice president of Northern Business Information, a market research firm, points out, even that company has not yet put it all together.)

Despite the bloodletting, life hasn't gotten any easier for the survivors. If anything, it is even more competitive than before. At the moment, as the chart above makes clear, it's still possible to think in terms of market segments and leaders against Western Electric in those segments. Consider PBXs, or private branch exchanges, the switches located on customer

premises. Mitel is clearly the leader in the small PBX market, Rolm in the midsize market and Northern Telecom in the large-size PBX market. Northern Telecom is also the leader in the digital central-office switch market.

TIE/Communications, which sells equipment made by Japan's Nitsuko, and ITT are the ones to beat in key systems (push-button telephones with several lines). But the picture is not likely to remain static. Market positions could continue changing as rapidly as they did between 1980 and 1982. NEC, for example, has continued its gains this year, as has United Technologies. A relative newcomer nurtured by Exxon called Intecom has also made gains.

The current leaders aren't sitting content. They are attacking each other's markets and price-cutting like mad. Their goal is to gain as much market share as possible now before the AT&T subsidiaries, Western Electric and/or the new American Bell, get their acts together and devise strategies to protect and increase their remaining market share.

Price-cutting, of course, is not peculiar to the telephone switching market. But the PBX makers have another big reason to do it. If, as every one of them predicts, the PBX becomes the hub of automated offices, a sale today could mean plenty of add-on equipment in the future.

Neither the casualties nor the price-cutting has dissuaded newcomers. Some well-established European companies, such as France's CIT-AL-

catel and Thompson-C.S.F., Britain's Plessey and Sweden's L.M. Ericsson, have entered the market, as have some younger homegrown startups: CXC, set up in 1981 in Irvine, Calif., promising deliveries this fall, and Ztel Corp. of Andover, Mass., next spring.

The newcomers are betting they can build a better mousetrap—that the switch they envision will be so much better than those “old technology” switches from the Seventies that the world will beat a path to their door. Trouble is, as both Mitel and ITT have found out, the new switch is no easy thing to build. Both companies have had to announce delays, and ITT will spend nearly \$1 billion on its project.

The idea is to leapfrog the established companies technologically. But do customers care? Some market watchers are convinced that customers now are far more interested in reliability and service than in faster and more versatile switches.

If that's true, the race could go to the likes of Northern Telecom and Rolm, which, of course, was recently blessed when IBM purchased 15% of its shares.

Or not. There are plenty of other people out there trying to take it away from them.

That's the trouble with markets so clearly on the side of history that practically everyone is aware of them. These companies may be first-rate outfits. Some are superb. But you should think hard before shelling out 40 times earnings for any of them. ■

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What America needs is less bull and more Bulldog.

In the near corner, Arthur Andersen. In the far corner, Coopers & Lybrand. And the referee hasn't shown up yet.

Take your fees and come out fighting

By Walecia Konrad

ONE OF THE GREAT business myths is that accounting rules are fixed and clear-cut. Nothing could be further from the truth, as the recent takeover battle between Northwest Industries and Pogo Producing Co. demonstrates. In a successful attempt to escape Northwest, Pogo attacked its suitor's accountants. The fighting that followed provides a rare insight into how subjective the profession really is. The message: Get the right accounting firm, and you get the opinion you want.

The bickering involves a \$38 million writeoff. Pogo claims Northwest overstated its earnings by not taking the charge in 1982. Arthur Andersen, however, audits both firms. So Pogo hired Coopers & Lybrand to take its side in court.

The controversy had its origins in 1981 when Northwest acquired 20% of Pogo's stock. Naturally, Northwest used equity accounting to show 20% of Pogo's earnings on its income statement. So far, so good. But Northwest paid some \$77 million over book value for its Pogo holdings. Ordinarily, a company would write off most of that \$77 million as goodwill over 40 years. But you can't use goodwill that way for oil and gas acquisitions. Northwest showed that Pogo's assets were worth \$77 million more than their book value and then allocated that \$77 million to unproved oil and gas.

That's where the fight started flying. Northwest

that only \$10 million of the \$77 million was in proved reserves, while Pogo says \$32 million was proved. Since unproved properties are not depreciated, while proved properties are, the more reserves Northwest could claim were unproved, the better its earnings would be. How much better? Three million dollars a year in depreciation, according to Pogo.

And that's only the beginning. A major point of contention involves the SEC requirement that all oil and gas producers perform a so-called ceiling test to make sure the cost assigned to proved properties acquired by a company does not exceed their fair value as calculated by the SEC. If a firm fails that ceiling test, it must take an immediate writedown. Good logic: If someone has overpaid for an asset, why should he be able to depre-

ciate it and save money on taxes?

Pogo says Northwest failed to perform a ceiling test. And when Pogo had Coopers & Lybrand's oil and gas expert, Alan May, run such a test, he decided that Northwest had overstated the value of proved reserves by \$38 million. That required \$38 million in writeoffs. How could Northwest have made such an error? May dismisses the very idea that there was any purposeful juggling of the books. "Arthur Andersen's Chicago partner and Northwest," he speculates, "probably didn't know much about oil and gas accounting."

Garen Bohlin, AA's engagement partner for Northwest, disagrees, and attacks May's figures. Bohlin makes two points: Pogo had far less in proved reserves than it claimed. And he says that, according to Pogo's own annual reports, it was going to receive at least \$95 million in income from proved reserves. Even though Northwest could claim only 20% of this amount, it was enough to prove that those reserves' fair value wasn't sufficient to present a ceiling test problem.

Who is right? Good question. Oil and gas accounting is perhaps the murkiest area in a normally murky profession. The Texas judge who presided when Pogo sought (unsuccessfully) to get an injunction against Northwest decided that this accounting hassle wasn't relevant to the takeover battle. But the fracas didn't go unnoticed by the SEC. *FORBES* has learned that the SEC subsequently discussed the matter with Northwest. At the same time, Northwest's closing of a \$100 million debenture offer was held up for eight days so Northwest could review its accounting. There was no clear link between the SEC's concerns and Northwest's delay—no changes were made in the prospectus—but it surely reflected some anxiety. An eight-day delay in a volatile time for interest rates is no joke.

Whether Northwest should have taken a \$38 million writeoff, of course, isn't the main point of this story. Instead, it's the spectacle of two Big Eight accounting firms, each armed with high-priced talent and mountains of regulations, publicly saying that the other is wrong. That's worth remembering when you look at an annual report and think the auditor's signature means the numbers are unquestionably right. ■



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Was this technology sound and dependable? Yes. Would their pricing structure provide sufficient cash flow to cover lease payments, even in light of oil and natural gas prices? Yes. Would long-term demand for aluminum survive the industry's current difficulties due to the worldwide recession? Yes. Was an acceptable substitute for calcined coke in the aluminum electrolytic process likely to be discovered? No.

Satisfied, GECC created this package for Power Systems: 1) A two-year \$60 million loan to finance construction of the plant. 2) Upon completion, the loan, plus accrued interest, will be capitalized and converted to a 10-year guideline lease.

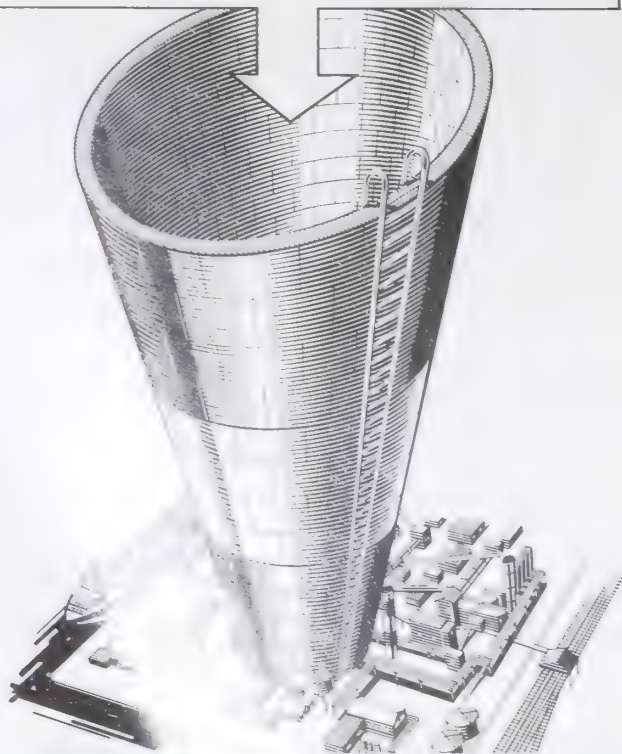
A \$70 million package in all for a small company (at the moment) with a blockbuster of an idea. What more could any lender ask?

GECC helps U.S. Lines take the plunge into super container shipping

United States Lines, one of the oldest U.S. flag ocean carriers, wanted to modernize its fleet by building container ships so large and efficient that each one could carry cargo equivalent to a 20-mile long freight train.

Consider the following, as GECC did, (and many other financial

MONEY POURING OUT OF A SMOKESTACK: UNRETOUCHED PICTURE. To most observers, nothing appears to be coming out of this smokestack but waste heat. Power Systems Engineering saw the potential profit in converting heat into steam energy—and GECC saw the potential in Power Systems.





SHIPS THAT ONLY SAIL EAST may not be the kind of big idea other financial institutions look for. But GECC's experts assessed U.S. lines "Round-the-World" shipping concept in the context of the worldwide container-ship market and found it promising enough to create a \$57 million debt package.

Institutions no doubt would have) or not helping U.S. Lines finance the building of the ships.

There is a worldwide recession in ocean shipping. No one can predict when it will end.

Many other shipping companies have large ships that are laid up, idling, useless to shippers and backers.

The choice Asia route market is dominated by foreign shipping.

Bottom line: GECC helped arrange a financial package when many other institutions probably would not have.

We were not naive. GECC's shipping experts went the extra knot and scoured the sea (and the land, too, in USL's case) for *positive* factors. Here is some of what we found:

As much as two-thirds of the Pacific basin—and the remainder of the seas for that matter—were up for grabs if the carrier was creative and aggressive.

GECC believed U.S. Lines was both. To begin with they had an extraordinary idea: their new Econships, the super container vessels, would sail eastward around the world in a continuous string. Each ship would make predetermined calls at 12 ports, calling at each port one week after the last ship had departed.

This would virtually eliminate the problem of light freight backhaul.

We commissioned a recognized naval architect to check the soundness of the Econship's design. And the contract with the ship builder was judged by us to be sound.

We were impressed that the company had an efficient land link between its customers and shipping ports worldwide—the carrier owns or controls 28,000 containers and 12,000 chassis.

GECC approved a \$57 million subordinated loan for U.S. Lines.

This financing has made American shipping in general more competitive with foreign shipping. The new cargo ships are more efficient, and therefore reduce cargo carrying costs. Result: more business for U.S. shipping companies, more dollars stay at home.

How GECC retail credit helps small stores get big and big stores become nationwide chains

GECC finances over \$1 billion in consumer credit receivables for more than 7,000 retailers throughout the country.

Our first objective for every retailer, regardless of its size and the merchandise it sells, is the same: slash the turn-around time on credit judgment.

If their present credit system takes days, we want to do it in hours; if it takes hours, we aim for minutes!

Our competitors probably think we're compulsive. But we never forget this elementary piece of salesmanship: Tell a prospective customer you're able to run a credit check on the spot and there's a good chance that customer isn't going to leave before you close the deal.

Two cases in point: Lowe's, the nation's largest retailer of lumber and building material products, and the fledgling Signature J clothing store.

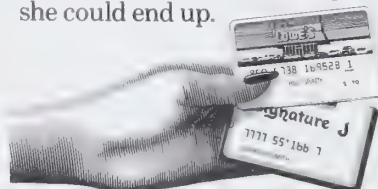
Lowe's has 235 stores located in 19 states. In fiscal 1982, total sales exceeded \$1 billion. Of that, \$570 million was in retail consumer sales; \$75 million was in credit card sales serviced by GECC.

GECC's relationship with Lowe's goes back to 1959. But it was in 1979—when they initiated and we began working with them on a private label credit card—that our mutual business really took off.

That first year, GECC processed 505 new credit card applications a day.

Today, GECC services over 525,000 credit card customers for Lowe's—and credit judgment time has been dramatically slashed.

Signature J is another story—now—but if the plucky woman who has owned the women's wear specialty store in Albuquerque since the beginning of 1981 keeps up her current pace there's no telling how big she could end up.



GECC services over 1.8 million credit card customers for 297 retailers—at last count.

That was not always so. Kajean Miller had no prior retailing experience. Her first try nearly failed. Once she got the business off the ground, she was confronted with a recession.

But Kajean stuck in there. She got a loan from the Small Business Administration. And she introduced GECC's credit card to her customers.

Within six months, her charge accounts doubled to 600. She expects a 10% increase in business this year.

Bill Grady of Lowe's, has said, "We chose GECC because they were willing to completely customize a program to fit our needs."

We believe Kajean Miller and our other retailers would agree.

To find out how we do it, mail the coupon. Or call 800-243-2222. In Connecticut, call 800-942-2222. Thank you.

**Marketing Programs Operation
General Electric Credit Corp.
260 Long Ridge Road, Stamford, Connecticut 06902**

I'd like to know more about GECC's ability to create money for business. Please send me your information kit describing additional financial packages and the 1983 revised edition of GECC's "Guide Through the Leasing Maze."

NAME _____

COMPANY _____

TYPE OF BUSINESS _____

TITLE _____

ADDRESS _____

CITY _____

STATE _____ ZIP _____

BUSINESS PHONE _____



**General
Electric
Credit**
CORPORATION

F 718

Creating Money for Business

Unapologetically conglomerate, unashamedly asset-managed, aggressively multinational as well. How unfashionable, and how well managed, can a company possibly get?

A paragon called TRW

By James Cook

TO LISTEN TO the critics of U.S. business these days, you would expect Cleveland's \$3.1 billion (assets) TRW Inc. to be one of the great disaster areas of the U.S. manufacturing economy. After all, TRW enthusiastically embraces most of the practices business critics deplore.

TRW is, first and foremost, a conglomerate. Its over \$5 billion sales are spread across some 47 different businesses at 300 locations in 25 countries, in a range so broad as to seem a virtual paradigm of the U.S. industrial economy.

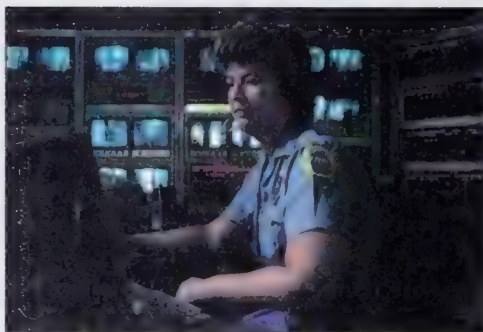
It is, as well, unapologetically, even defiantly, an asset-managed company. Only three years ago, in a widely publicized manifesto, TRW formally reaffirmed some old-fashioned financial goals that were earmarks of the conglomerate era: a 10% real internal rate of return on investment, a 5% annual increase in both real earnings per share and dividends and at least 8 times interest coverage on its \$325 million in long-term debt.

As the world's number one producer of valves for the auto and aircraft industries and a wide range of other industrial products, TRW is also wholeheartedly committed to the old-fashioned high-volume, standardized production techniques that are sometimes said to be responsible for the U.S.' declining productivity and international competitiveness.

TRW is also an unabashedly multinational company, redeploying its assets on a global basis as economics and opportunity dictate. And though it runs a highly successful, 80%-owned auto parts operation in Japan, it remains, in style and spirit, an unmistakably American enterprise. And

it is not at all apologetic about it.

For all that, TRW is one of the U.S.' best managed and most successful companies. It has averaged a good 16% return on its stockholders' equity over the past five years, and though in last year's auto and energy slump its sales and earnings turned downward for the first time in a decade, its earnings per share were nonetheless 24% higher than they were in 1977, on a 57% increase in sales. In the electronics and space business, 43% of sales, that's not much of a record. But in auto parts (30%), energy and



TRW space center
Security room at Redondo Beach, Calif.

industrial goods (27%), that performance is a lot more impressive.

Despite its size and its great success, TRW also ranks among the most imaginative and innovative major companies in America, still willing to take risks, even big risks, in a fashion big companies are supposed to be chary of. Its example, all in all, is so splendid as to suggest that there may well be something fundamentally mistaken about much of the criticism leveled against U.S. business practice in recent years. It suggests that what is really wrong with U.S. industry is not that U.S. corporations have hewed too narrowly to such much-

despised practices as diversification, asset management, standardized production and multinational operation, but that they may have been far too lax in adhering to them or, worse, incompetent.

Business critics like Harvard's Robert Reich, for instance, seem to think conglomeration is a Seventies phenomenon. But, like many other U.S. corporations, TRW has been conglomerating for decades. The company descends from the well-known old Thompson Products Co., which made a name for itself in automotive and aircraft engine parts and became something of a household word by sponsoring the famed Thompson Trophy Race, the aeronautical equivalent of auto racing's Indianapolis 500.

These days, autos and even aviation may seem rather mundane, but in their day they were great and glamorous growth businesses. So it was not such an abrupt change of pace as it now seems for TRW to plunge into the intergalactic wonders of electronics and space in the early Fifties. But it was risky all the same. Two disaffected Hughes Aircraft employees, Simon Ramo and Dean Wooldridge, were trying to get a new electronics systems company off the ground, and in 1953 TRW kicked in \$20 million—20% of its net worth at that time—for a 49% interest and boosted Ramo-Wooldridge Corp. and its once renowned Space Technology Laboratory into orbit. Ramo-Wooldridge went on to administer the U.S. ballistic missile program and later much of the space program, thereby enormously enlarging TRW's longstanding position as a government contractor. Through Ramo-Wooldridge, which it absorbed in 1958, TRW became the pioneer in un-

manned spacecraft. It still is, building maybe a third of all the satellites produced these days. This includes the astonishing Pioneer 10, which only last month, after functioning nearly flawlessly for over a decade, left the solar system toward another galaxy.

Most of the more notorious conglomerates conglomerated out of necessity because their basic businesses were in trouble—as U.S. Industries did, or SCM, Penn Central or even Textron, the exemplar of them all. But TRW simply saw additional and greater opportunities elsewhere, and went after them. In so doing it changed its substance but not its style. It had always concentrated on businesses that were manufacturing-intensive, parts-intensive and high-technology-intensive, and by and large it still does.

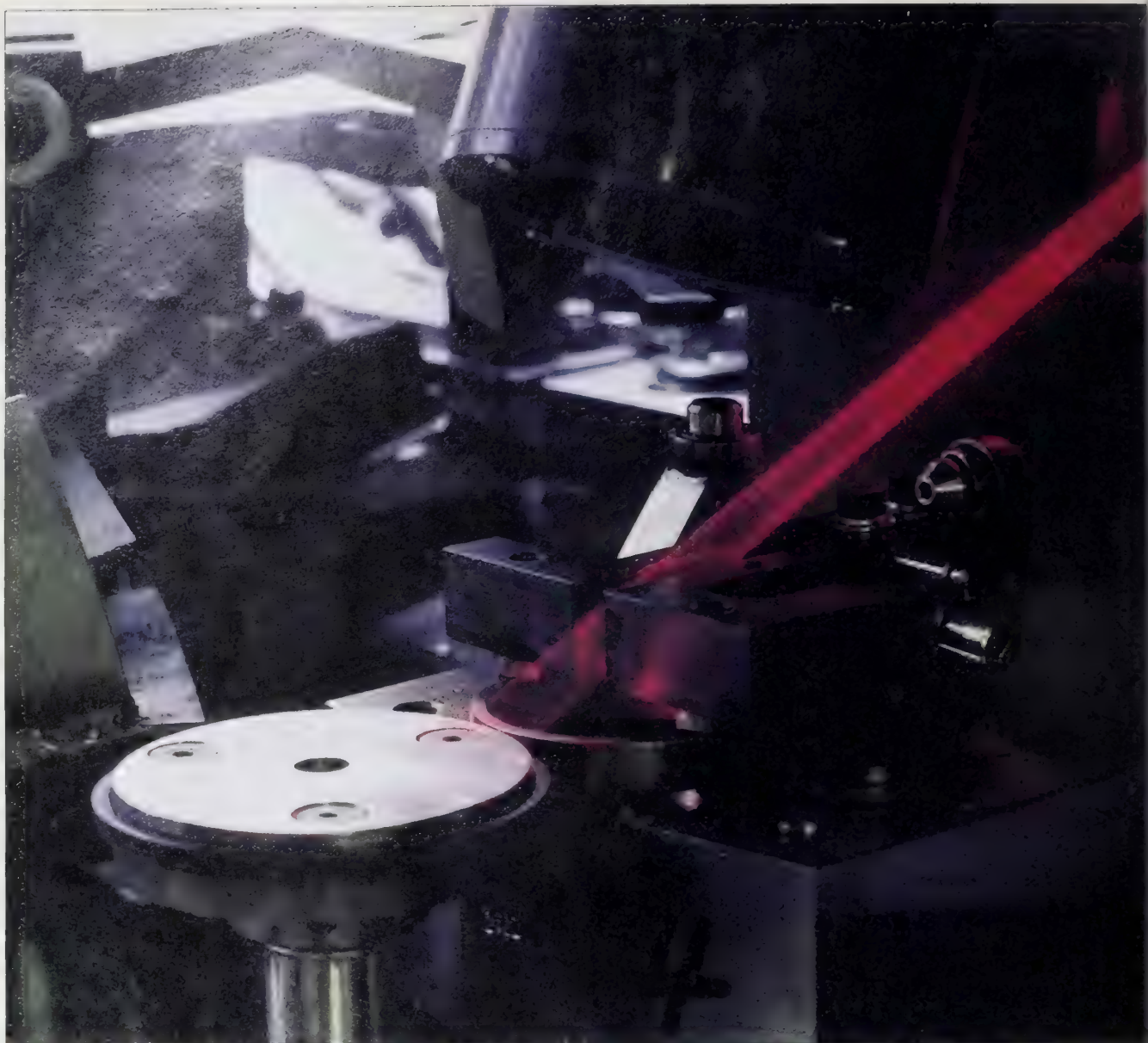
"We don't think of TRW as a static sort of business," explains Chairman Ruben F. Mettler, 59, marking a straight line in the air with his outstretched hand. "We have to adapt and change"—clenching that hand into a fist. As Mettler sees it, there is no reason why, because a line of business dominates a company today, it must do so tomorrow or the day after. Over the years TRW's shape has gradually changed, from an aircraft and auto parts company into a conglomerate, a multinational and an aerospace-electronics company (see chart, p. 106). The process goes on. Electronics and space provided nearly 45% of TRW's \$5 billion in sales last year, up from 31% as recently as 1977. Mettler doesn't doubt it will move on to 50% and conceivably 60% over the next few years, even if its recession-devastated energy and auto parts businesses should recover. But that's no reason for thinking the company may not again reshape itself in some different and even more startling manner.

This commitment to change—to creative destruction, if you will—may seem exotic in industries like steel or even autos, but it is as basic as white bread and butter to TRW. It has led TRW not only into electronics and space but also, during the Sixties, into more mundane but equally promising new areas: fasteners, steering systems, bearings and oilfield equipment and services. The same commitment converted it into a thriving multinational company in the 1960s and, in the 1970s, began leading it beyond manufacturing into the services.

"It really wouldn't make much sense to say we have a long-term goal of a certain return on investment if we were tied to just a single business," Mettler says disarmingly. "We



Protective cover being installed on TRW's Tracking & Data Relay Satellite No. 2. This satellite, yet to be deployed in space, is a key element in NASA's space-based global communications system. TDRS No. 1 reeled out of control in April when its Boeing-built booster apparently malfunctioned. TRW still expects to put it in place—a remarkable achievement in itself.



Laser gauge inspection unit at TRW's Cleveland valve plant

For traditional industries, the productivity potential of electronics.

should grow the high-return parts of our business by allocating more resources to them. At the same time we should make hard decisions about units with poor histories, poor trends, poor market positions. So it's our diversification and our ability to emphasize different parts of the business over a period of time that's enabled us to achieve many of our goals."

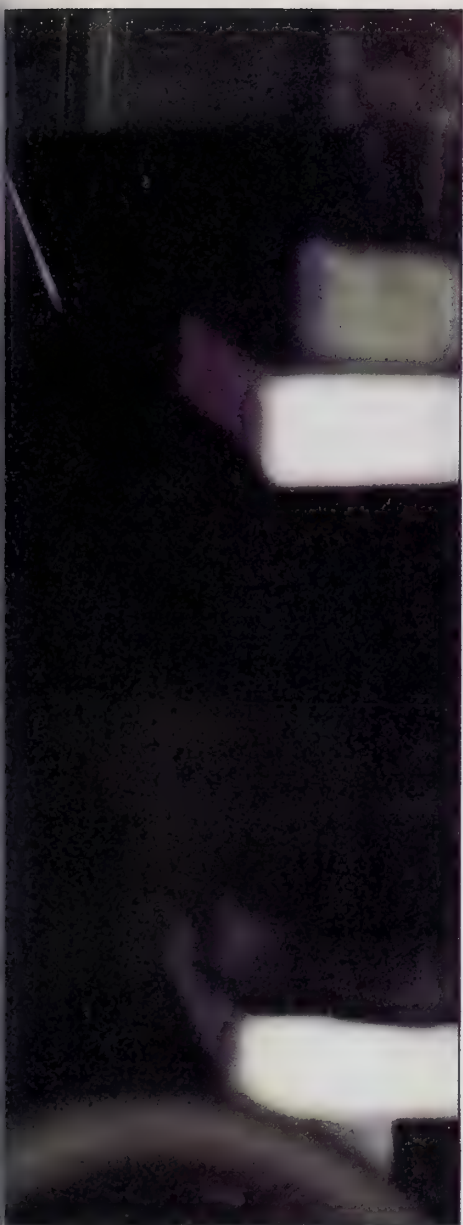
TRW moves in and out of businesses all the time, making three or four acquisitions each year, probably getting out of an equal number, in whole or in part. Last year, for instance, it got out of Argentina (for political and economic reasons), sold its English steering-wheel company (because it couldn't become a major force in the world market) and collapsed five British valve producers into one (because

the market had shrunk). At the same time, it bought drilling control devices maker Brandt Co. and 16.5% of oil country equipment maker Trico Industries (to round out its energy business), picked up German electronics company Daut & Rietz (to provide a European electronics component base) and Dynalco in the U.S. and Probe Engineering in Britain (to provide market access for its transportation electronics ambitions).

Critics like Barry Bluestone of Boston College (*FORBES*, June 20) and Robert Reich, among others, have generally viewed such acquirers as the instruments of America's industrial decline, chewing up companies and spitting them out again, closing plants, eliminating jobs, wasting capital that might more profitably be

committed to new investment. It's a tidy theory, but it doesn't square with the real, messy world. For most such corporations, conglomeration is often an alternative to the long-term decline of their original businesses. And why not? The whole purpose of capital management is to direct capital out of businesses with declining returns and into businesses with rising returns.

For all its acquisitiveness, in any case, TRW boasts that it has never made an acquisition for purely financial reasons. It has never practiced the "paper entrepreneurialism" that Robert Reich complains about, whereby companies create the illusion of growth by the way in which they manage their financial statements rather than the way they manage their



Heat-treated valves

Volume parts for volume markets.

Such methods are the means by which, as Harvard's William J. Abernathy and Robert H. Hayes put it, American industry has managed its way into economic decline. Asset management inevitably emphasizes short-term results, or so they argue, and so discourages companies from making the long-term investments that are necessary to finance the future. At TRW, as Mettler admits, it is the central tool with which the company manages its operations.

Mettler does not dispute that there is a danger, but he also insists there is nothing slavish about TRW's dedication to its financial standards. "The principal criterion is *informed judgment*," he says. "If a project shows a level below our threshold, we need to know why, but that doesn't automatically mean we rule it out."

"We aim at 10%," TRW's chief financial officer, Executive Vice President Charles R. Allen, explains, "but mature businesses produce a hell of a lot more, and startups will produce a hell of a lot less. The balance is something the CEO has to decide. In the past the auto and aircraft businesses have been very profitable and generated the kinds of returns that would support the startups in electronics and defense. They're not anymore"

TRW, in short, is not run by numbers. It's run by engineers—Ruben Mettler and the 15,000 other engineers and scientists who make up nearly 18% of TRW's work force of 85,000. They set the tone, style and focus of this technocratic and entrepreneurial company. TRW maintains 17 technology development centers around the company. It maintains contact with universities around the country to assure that it will have access to the "must-have" technologies of three years, five years, ten years into the future. It maintains a science and technology committee headed by Ramo-Wooldridge founder Si Ramo that helps define the company's technological interests. Asset management may hold the throttle,

but it's technology that drives the company.

"We're prudent risk takers, prudent adventurers," Chuck Allen says. "We're not going to bet the whole wad on one thing. We've kept things that are losers if we think they're going to turn around for us. We say we want at least 10% for new businesses, but even then we sometimes say, 'Well, if it can't lose all that much and will do something for some other business we've got. . . .'"

Take the credit business, one of the largest, most promising and fastest-growing new areas TRW is moving into. TRW got into consumer credit back in 1969 with the acquisition of a Michigan credit data company. It has since built up a gigantic computer-based file that can provide virtually instantaneous credit data on 90 million consumers. The new venture has been a real triumph, and TRW is already the largest in the business.

The results were so profitable that in 1976 TRW launched a parallel effort to build a business credit network of comparable magnitude, in head-to-head competition with Dun & Bradstreet, which has traditionally dominated the business. So far the venture has not met TRW's investment standards. It's running two years behind schedule, and it has been losing money—less than \$3 million a year on average. But with data on more than 8 million business locations on file, TRW now claims 10% of the market, vs. D&B's 80%, and Mettler expects it will soon break into the black. "We're sticking with it even though it's continuing to cost us money."

TRW's losses on the business credit network—\$20 million to date—flatly contradict the latest conventional wisdom about conglomerates. Companies like TRW are not imagined to be taking such risks. They are accused of acquiring companies, not for building a business, but for running them into the ground, turning their assets into creative accounting.

Mettler, however, sees the credit business as the core of a major new service business centered on computer-based information systems. Though TRW operates the largest computerized database and communications system outside of the Internal Revenue Service, it uses it barely 12 hours a day. Mettler would like to collect "the premium for using fixed investment. We could solve the problem by going overseas—to Europe or Japan," and so extend the business day. "Or we could solve it by finding other businesses to use the system at

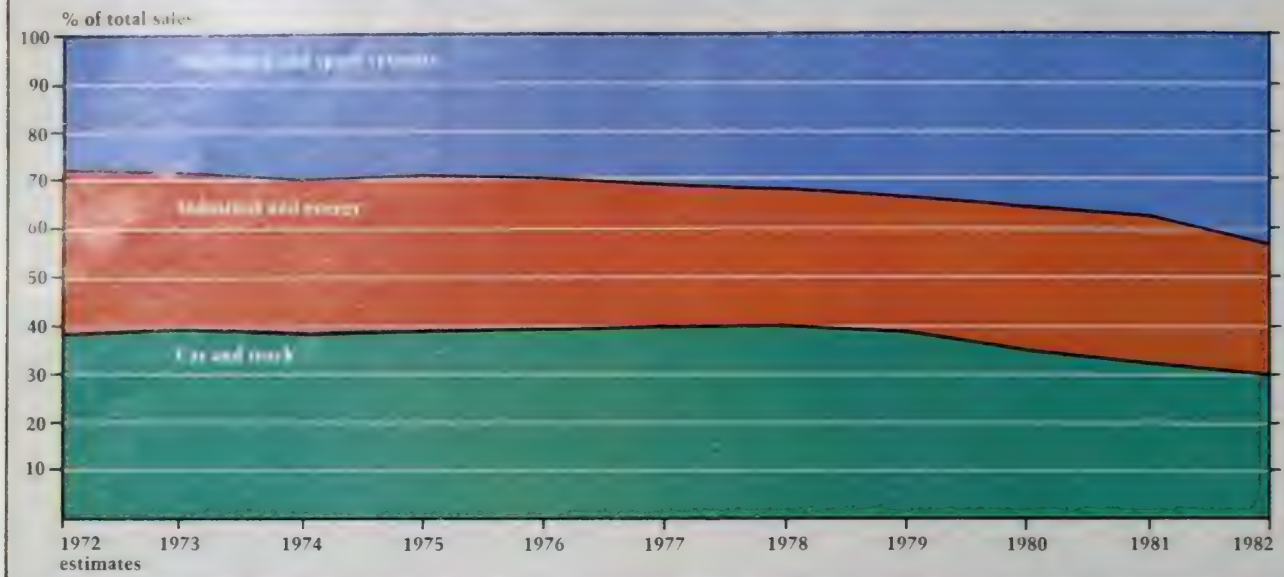
companies. TRW's growth record speaks for itself. What matters is not the fact that some 15% of TRW's revenue growth in the Seventies came from acquisitions, but what happened to these outfits after they were acquired. Reda Pump, for instance, had \$25 million in sales when TRW bought it in 1969, vs. \$200 million today. Repa, a German seat-belt company, had \$30 million in 1972, vs. \$100 million today. ESL—a classified military electronics outfit acquired in 1978—has quadrupled its \$40 million sales in four years.

In shaping and reshaping the company, TRW long ago adopted the discipline of discounted cash flow analysis and return on investment, and it has never seen any reason to abandon it. It is decidedly not the fashion today.

The transformations of TRW

During the Sixties, TRW had transformed itself from an auto and aircraft parts company into one of the U.S.' most successful conglomerates. In the late Seven-

ties it slowly began to change again, this time into an aerospace electronics company. But nothing is permanent. By the Nineties TRW could easily change again.



off-peak hours." At the moment, TRW is experimenting with real estate services as a first step, not only computer-based multiple listings, but title searches and real estate finance availability. "We're pushing those guys to go faster," Mettler says.

But TRW is also prepared to cut its losses. It has already dropped out of the digital telephone switching business it had gotten into around the same time as the credit business, at a \$34.5 million loss. "We didn't see the market well enough, and the competitive environment," Mettler says. "We had a choice of making either very much larger investments or getting out. We opted out." Moneyman Allen puts it a little more bluntly: "Had we known five years ago that we were going to experience the kinds of losses we did, we'd have chopped it off much earlier. We're not prepared to stay a long course with a business that's subpar or running into the red—two or three years of losses, but not eight."

Around the same time TRW also acquired Singer's point-of-sale (POS) business (electronic cash register systems, that is) as a means of marketing a POS terminal it had developed itself. But it was no match for such competitors as IBM and NCR. In 1981 it tried to salvage the operation by melding it into a joint venture with Fujitsu. That didn't work either, so early this year TRW sold out its minority interest at book value. The venture was a marketing-distribution agreement and couldn't adapt prod-

ucts quickly to the needs of the market. "The decision wasn't tied to discounted cash flow," Mettler says. "It was a product development issue."

But the POS business was only the half of it. As part of the deal, TRW also acquired Singer's \$50 million-a-year customer-service operation, which services POS terminals, computers, automatic bank teller machines and similar equipment on behalf of the equipment manufacturers. TRW turned it into a \$130 million-a-year business, the largest such business in the U.S. "We had a small, weak business, and we built it up," Mettler says. "In terms of financial performance, it's one of the best we have."

No small part of TRW's ability to exploit those opportunities in the commercial market—to maintain its entrepreneurial and innovative thrust—has come from TRW's close involvement in the government's defense and space programs. The electronic technologies that stem from these programs have already transformed the company, and TRW's government business has emerged as the company's great anchor, source of 32% of sales and a generator of rising profits. It also helps stabilize the company in economic downdrafts, as it did when TRW's auto and energy businesses fell to pieces last year.

Best of all, the returns on the government business are good. "Real good," says Chuck Allen. "You get a much faster turnaround on capital.

TRW's total capital turnover runs around two times a year. The return on government business has been closer to five. At a 3% margin, that's a 15% return on assets."

The defense business is not only a good business. For TRW it has been a means of developing the financial and technological resources needed in other parts of the company, in electronics as well as in auto parts and energy. TRW reports its profits on its government work as it goes along but, under the "completed contract" method of accounting, for example, pays taxes on them only when the contracts are fully completed. This amounts, in effect, to an interest-free loan. By 1982 TRW had piled up over \$460 million in deferred taxes—money earned but not taxed—\$125 million from depreciation and nearly \$340 million from government contracts. "Hell, it turns out to be almost what our total debt is," Chuck Allen says. That has been no small advantage at a time when the prime rate has risen to as high as 21%. Last year's tax reform act seems to have closed that loophole, but the beneficial effect of those deferred taxes will linger on for some years to come, the total gradually dropping to \$300 million or so and then leveling off.

The government also funds the bulk of the research and development work TRW does, 82% of the company's \$1.4 billion R&D spending in 1982. TRW has proprietary rights over only the 18% it financed itself, but it

likes the tradeoff. It does have continuing access to the knowledge and experience that its staff has built up. "What really counts is knowhow, people-in-the-knowhow you can tap for programs that benefit some other part of the company," says Arden Bement Jr., TRW's vice president for technical resources. "We gain intellectual properties and rights to intellectual properties, but a lot of that technology is raw technology a long way from proven economic or commercial feasibility. So there is a lot of follow-on commercial investment required."

TRW's government research and development really laid the ground-

work for most of its \$500 million-a-year commercial electronics division, now growing at 20% a year. Take LSI Products, TRW's highly successful microelectronics division. The outfit was formed in 1977 to transfer TRW's digital signal technology to the commercial market. Now a \$50 million-a-year operation, LSI makes chips for products like electronic games, medical equipment and high-resolution television screens. LSI doesn't deal in memory chips, the commodity product of the microelectronics industry, but in logic chips that operate at very high speeds—fast signal analysis, speech recognition, pattern recognition—for use in smart machines. That

may be a more specialized and customized market than the one for memory chips, but it's a very fast growing one, and it promises to be a more profitable one. TRW is in the forefront of the business. One of the half-dozen companies with contracts to develop VHSIC (very high speed integrated circuits) logic chips for the Defense Department, LSI became the first to develop one—last February.

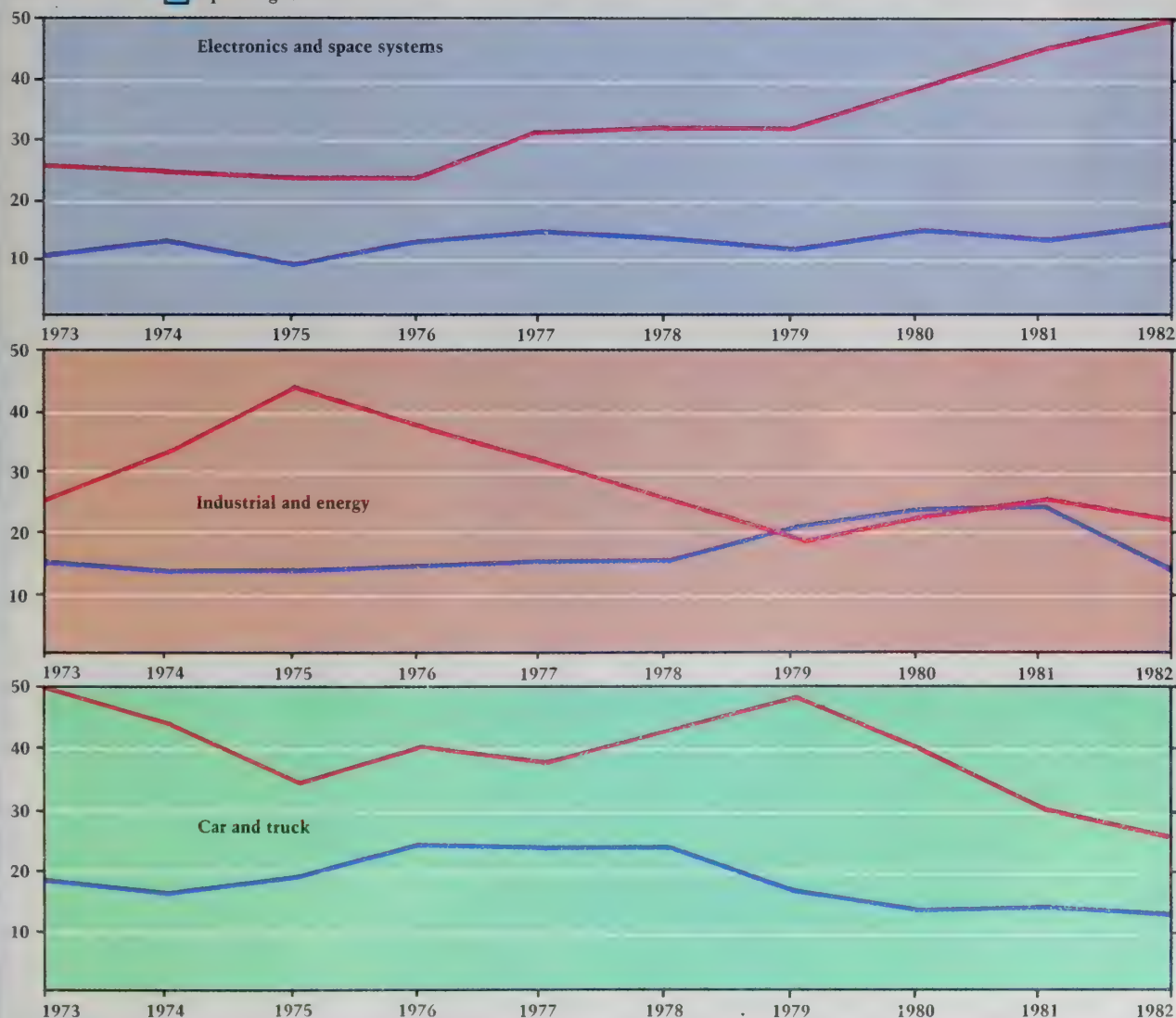
Much of what TRW does in its defense contracting, from software programs for sorting out warheads in antiballistic missile defense to hardware programs for the MX missile or the military communications satellites or space-based lasers, suggests the tech-

The money goes where the money is

In any well-run company, the investment goes where the profits are. No surprise, then, that over the past decade the emphasis of TRW's capital spending has moved more or less in line with the returns it has

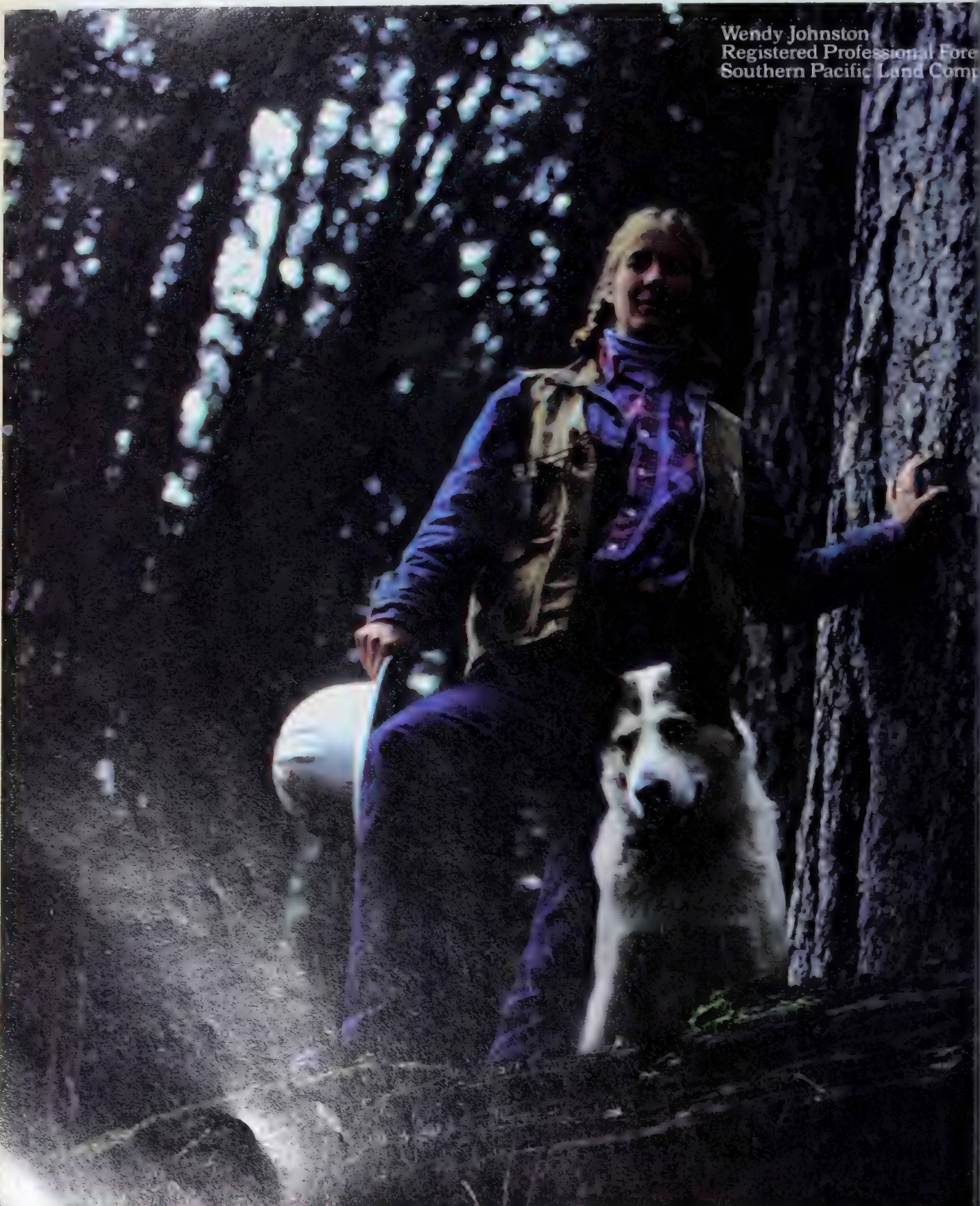
been getting in its various business segments—responding fairly rapidly as the returns in auto parts dropped off, rising rapidly in line with the rising returns in electronics and space systems.

■ Share of total capital expenditures
■ Operating return



"With a little help from Southern Pacific
nature can produce a better forest than th
in half the time."

Wendy Johnston
Registered Professional Fore
Southern Pacific Land Comp



The forest floor can be a very hostile environment for a young tree. The seedling must fight weeds and scrub growth for water, and taller vegetation for sunlight. It's susceptible to attack by disease, animals, and insects. Under these conditions, many trees die. And many of those that survive are stunted or deformed.

Southern Pacific is finding better ways for forests to grow. We own 450,000 acres of commercial timber, and as we harvest our land, we replant it to produce trees that are taller, straighter, and healthier than those they replace.

Our reforestation program starts with genetically superior trees, selected by Southern Pacific

foresters like Wendy Johnston. Seedlings from these trees are planted in newly-harvested areas free of competitive vegetation. As they grow, other SP foresters carry on a continuous thinning program, to assure adequate water and sunlight. Under these favorable conditions, trees thrive. Douglas fir and Ponderosa pine that



Southern Pacific foresters replant harvested areas with seedlings from genetically superior trees. In 1983, SP will plant more than two million new trees on its forest land.

ordinarily grow a few inches a year add as much as three feet of new growth. As a result, forests planted by Southern Pacific will reach mature size in about fifty years, instead of the century or more they normally need.

When timber is harvested from Southern Pacific land, our foresters make sure logging follows strict environmental guidelines, often cutting only selected trees, and using standards that are higher than those required by law. Last year, we harvested 160 million board feet of timber. And although this earned us substantial profits, our reforestation and forest management methods have earned us something we're equally proud of: the respect of environmental organizations and our fellow professionals in the field.

As extensive as our forestry operations are, they form only a small part of Southern Pacific—a diversified corporation with interests in transportation, pipelines, real estate and development, natural resources, insurance, equipment leasing, energy, printing, and agriculture.

We began life as the railroad that opened the West, more than a hundred years ago. Since then, our vision has taken us far beyond the reach of our rails and the dreams of our founders. Nevertheless, Southern Pacific remains today what it was in 1862: a young company with fresh ideas, bold plans, and a future filled with promise.

Southern Pacific

Official sponsor for the 1994 Olympic Games



nological futurism of movies like *Blue Thunder*, *War Games* or even *Star Wars*. And that may be the direction it's going. In following its technological bent in areas like high energy lasers, fiber optics and artificial intelligence, TRW is more inclined to put its chips on the government rather than the commercial market because that seems to be where the money is.

We have something like \$1 billion to work with over the next few years," Mettler says, "and we are trying to put the heavy investment on things that have a really long-range future." Which means electronics primarily—LSI Products, electronic components, transportation electronics. Over the past five years TRW's Electronics and Space assets have risen 113%, compared with Industrial & Energy Products' 50% rise and Cars and Trucks' 27%.

With a backer like the government and a technology like electronics, it's easy to be flexible and innovative. But TRW has done nearly as well in its original low-technology businesses.

As far back as the early Sixties, TRW realized that small cars produced outside the U.S. were eventually going to dominate the world market. It gradually began converting its overseas auto parts licensees into subsidiaries. They make not only traditional products like valves, gears, piston rings and ball joints, but also more innovative ones like seat belts and rack-and-pinion steering specifically adapted to European cars. "The basic strategy," Mettler says, "was to serve every major manufacturer of vehicles in the world." The strategy transformed TRW into a multinational company, with nearly a third of its worldwide sales outside the U.S.

In venturing abroad, was TRW exporting American jobs, as so many critics contend? Quite the contrary. TRW couldn't have served these markets from the U.S., Mettler insists. Far from exporting jobs, its international operations ultimately enabled TRW to provide them in the U.S. And they still are. TRW supplied valves to Volkswagen in Germany and Nissan

in Japan, for example, and it has gone on supplying them—from its U.S. plants—when both began manufacturing vehicles in the U.S.

"We keep saying we are in world markets, we are in world markets," Rube Mettler says. "We do not believe that every product or business should be worldwide. But every product group should develop strategies to become competitive in a world view."

The auto business is a volume business worldwide, of course, and as a supplier TRW is logically and inevitably a volume producer. But many observers believe the rigidity involved in high-volume standardized-parts production is the source of much of the U.S.' declining competitiveness. Those so minded believe, with Robert Reich, that Japan's success in autos is based not on standardized production but on technological innovation, precision manufacturing and customization. But as Mettler sees it, production strategies are not either/or propositions. As a parts producer, TRW has always been as committed to flexible

Permanence in change

For a company committed to change, TRW has had an uncommonly long continuity of management—only four chief executive officers in 50 years, all of whom, as it happens, are still alive: Frederick C. Crawford, 1933-58; John David Wright, 1958-69; Horace A. Shepard, 1969-77; and Ruben Mettler, 1977 to the present. And that may be the major reason that over the years TRW has been able to manage change so effectively: Continuity may be every bit as important as adaptability.

The Japanese have always claimed that much of their widely admired work culture has been derived from U.S. business practice. If so, TRW may well have been one of their exemplars. At least since the Thirties, when Fred Crawford used to pick out one of every five employees for an informal bull session with management, TRW has been unusually sensitive to the needs and claims of its employees. In most instances, that mainly involves doing the obvious—cutting the work force when necessary through attrition rather than extensive layoffs, holding inventories built up against a possible strike rather than laying people off when the dispute is settled amicably, or abandoning the open plan in its new headquarters building when it discovered the employees wanted more privacy. These are all practices followed by TRW over the past year.

Only one-sixth of TRW's work force is organized by the big international labor unions, mainly in energy



TRW's Ruben Mettler
The CEO sets the balance.

and auto parts. Another sixth belongs to independent unions. The remaining two-thirds, especially in the electronics end of the company, belongs to no union at all. And perhaps for that reason the adversarial relationship that characterizes so much of U.S. labor-management negotiations has been held to a minimum. Which may be why in the past 18 months TRW has succeeded in eliminating or capping cost-of-living adjustments (though not wage increases) in 80% of its pay plans—a procedure that has helped some plants achieve a 20% to 30% reduction in the break-even point. At various locations it has been able to cut the number of job classifications in

half, making considerable gains in both flexibility and productivity. Elsewhere it has worked out agreements to enable employees to do maintenance work on their own machines. At Harrisburg, Penna. and Lawrence, Kans. and elsewhere, it has been successfully changing the work culture by putting all of its employees on salary, production workers included, rather than paying them by the hour. Ten plants out of 200 are all-salaried so far—all of them, as it happens, nonunion. Howard V. Knicely, TRW's vice president-human relations, expects in the future all of its new plants will be opened on an all-salaried basis. In the circumstances, what worries Knicely as much as anything is the difficulty of maintaining the TRW way of doing things in the face of so much rambunctious growth.—J.C.

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June 20, 1983

Meeting Japan's Challenge

Ninth in a Series

HAS JAPANESE INNOVATION REPLACED GOOD OLD YANKEE INGENUITY?

Not yet. But Japan could close the gap if Americans don't try harder.

The fact is, the Japanese are graduating more engineers; they're doing more nationally-coordinated and funded engineering, and they're also upgrading their well-known ability to implement the designs of others with a quality accent.

Yet in high technology electronics, Americans are both the creators and leaders. And companies like Motorola intend to keep it that way.

For example, take the microprocessor — a tiny chip of silicon containing all the logic circuits of a computer. First invented by our U.S. competitor, Intel, 4-bit microprocessors are the logic brains for calculators and appliance controls. More complex 8-bit microprocessors are used in applications like electronic games, or to improve fuel economy and reduce pollution in automobiles, to mention a few.

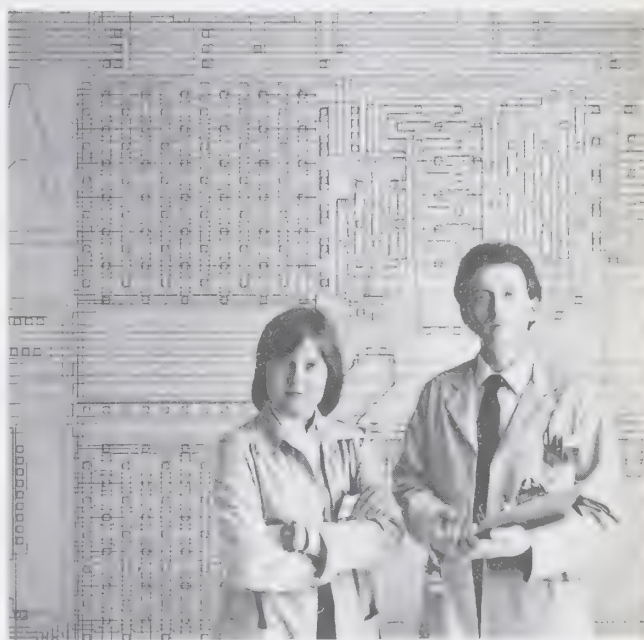
Most of these microprocessors and their computers were created by Americans.

Now the American semiconductor industry has given birth to the 16-bit microprocessor — a whole new generation that's up to ten times more complex and powerful than its predecessors. In fact, a 16-bit microprocessor has the capability of controlling an astounding 128,000,000 pieces of information.

These 16-bit microprocessors were developed and introduced by American manufacturers. Motorola's own version — MC68000 — is widely acknowledged to have the most versatile computer architectural structure. You'll find it in new kinds of products never before economically practical: machines and instruments that talk, listen and respond; automatic production equipment that manufactures with higher precision and greater productivity; small home computers as powerful as large business computers built only five years ago.

And as innovative as these products are, new generations of microprocessors continue to open the realms of what's possible. For instance, we have announced a 32-bit version of the MC68000 that is the world's first fully upwardly compatible version of an earlier 16-bit sister machine. But that is not the point.

The point is that innovation and imagination in this field, as in others, is American. It is from this solid innovation base that we must meet Japan's challenge. As competition for world markets becomes more intense, it's this good old Yankee ingenuity that will keep us out front.



A single engineering drawing for the MC68000 covers an entire wall. Yet the actual microprocessor is only about 1/4 inch square.



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manufacturing as it is to volume production. To adapt quickly to the whims and economic demands of its auto industry customers, it has had to be. But TRW has maintained its competitive position because it is the industry's really high-volume producer, and because of that volume, probably the lowest-cost producer as well.

Flexible manufacturing is essential these days, but it's not necessarily cheap. The automakers used to buy valves across a family of engines, so that TRW would run an order of 500,000 to a million units a month. No more. With virtually everything a custom job these days, TRW runs orders of 150,000 and 200,000. "These are economical sizes," says TRW Vice President Daniel E. Gaffney, who manages the North American valve division, "but you've got more downtime. We've got to get those capital-intensive machines working damned near all the time."

That's where the \$40 million Gaffney hopes to spend over the next five years on robotics, fully integrated manufacturing and computer control systems comes in. These new programs will cut downtime and increase machine use dramatically. By mid-1984 TRW will have a computer-controlled valve-finishing line, where the operator will no longer need to make the 20 or so decisions involved in shifting from one order to another. All he will do is change a wheel or tool or whatever, as the computer decides.

The production economies that could result are critical. TRW assumes that total demand for valves, as for most of its other conventional auto parts, will never return to old levels. As U.S. automakers have moved from 8- to 6- to 4-cylinder engines, the valve business has shrunk disproportionately, so Gaffney has been downsizing his capacity as well. TRW's valve production will run about 30% below its 1979 peak this year. Gaffney doesn't expect his valve business to recover much even if auto production increases. But with capacity down and efficiency up, he does expect to improve his margins.

If there isn't much growth left in auto parts overall, Mettler nevertheless believes that particular segments of the business will continue to grow very rapidly: rack-and-pinion steering, electrohydraulics. There is, too, the aftermarket, an area where TRW now operates a \$500 million-a-year parts business. There is, most important of all, transportation electronics. "The auto business will have more electronics," Mettler says. "These two markets con-

Mettler expects the synergy to be explosive, with the transportation electronics market growing tenfold in the Eighties. "What you can do for a combine, tractor or car with a little electronics is dramatic," he says. At the moment TRW is working on maybe 25 new products, including not only devices to monitor and control diesel fuel consumption in trucks at a 10% to 15% improvement in fuel efficiency (the first family of products on the market), but also ceramic coatings to reduce the need for engine water and oil and devices for monitoring seeds as they drop to the ground. With a \$17 billion market in prospect, TRW can afford to be patient.

Even more promising, Mettler says, is the application of the new technology to traditional manufacturing—converting dumb machines and factories, as Mettler puts it, into smart ones. "Applying electronics to manufacturing industrial parts is at the heart of the productivity issue."

A Caltech-trained electrical and

TRW is run, not by numbers but by engineers and scientists who set the tone, style and focus of this technocratic, entrepreneurial firm.

aeronautical engineer who started out running the Thor Ballistic Missile Program at Ramo-Wooldridge, Mettler is unwilling to dismiss out of hand much of the criticism that's leveled against U.S. business these days. He is especially alert to the danger of emphasizing shorter-term results at the expense of longer-term goals. Thus, TRW is attempting to minimize that danger by going to "real term" reporting. It is adjusting its accounts, that is, to reflect inflation—first companywide and then by individual units, in terms of profit and return on sales and investment.

Like most other companies, TRW has been reflecting the effect of inflation on its inventories for years through LIFO accounting. Now it is doing the same for depreciation, restating it to reflect, not historical value, but replacement cost. By this reckoning, the seemingly high returns of some divisions have shriveled considerably, sometimes to the vanishing point. The impact varies. In credit data the change is minimal. In auto parts the effect can be enormous.

"Unless you can reproduce the facility you're consuming, you don't really have a profit," Mettler says.

"We don't want that to happen. That doesn't mean you should jump to the conclusion, 'My God, that's a bad business, let's get out of it.' But it has caused us to rethink the businesses we've got. We have to have a way of comparing not only internal developments with acquisitions but also one business in one country with another, or one product with another."

"Convert our 1982 performance into real terms, and we do not meet the corporate goal," says Dan Gaffney, whose valve division is nominally one of TRW's most profitable operations. "We are still in the black, but we are in an old, well-established, capital-intensive, highly depreciated business, and we're trying to really understand what has to be done to meet that criterion." As a start, Gaffney is getting rid of 188 pieces of equipment, on the books at \$700,000, that haven't been used in years.

Real-term reporting also raises hob with TRW's progress in meeting its long-term financial goals. "TRW has been earning 14% and 15% in recent years," says Chuck Allen, "but with the inflation we've had, you have to have a hellish high return to make 10% real. As a rough approximation of what the nominal rate has to be, add the inflation rate on top, and these days that brings TRW's target to 17%. But when the inflation rate is 9%, 10%, 11%, you're talking about a 20% nominal return, and you can't get that here. That's impossible."

Which is precisely the point of TRW's management approach all these years. But in a changed economic environment, the effect will be to skew investment away from capital-intensive businesses, away from those that are especially inflation-prone, and toward service businesses, low-capital-intensive businesses, businesses with a fast turnover. "It may not cause us to say, 'We have to get out of that business,'" Mettler says, "but we've got to have a different pricing structure, a different cost pattern, a productivity improvement. It goes right to the heart of the business—what are you producing at what cost and at what price are you selling it? It gives our managers a long-term orientation because they're not just judged on how well they're doing on today's accounting, but how well they're replacing the capital they'll need over the next plant year."

Managing under that sort of discipline is not a particularly graceful way to age. But it is precisely the sort of rigor that has kept TRW committed to change—the one certainty in all its businesses, as in anyone else's. ■



Australia: An Economic Overview

Edited by Alan Jury, investment writer for Australian Business magazine.

The first commercial links between Australia and the United States were forged in 1792, when the British penal colony of New South Wales was only three years old. Captain Thomas Patrickson sailed the *Philadelphia* into Sydney Harbor. After his cargo of "assorted notions" was gone, he sold the ship to colony governor Arthur Phillip.

Today, trade between the two nations is far more substantial. U.S. direct investment in Australia exceeds US\$9 billion, while U.S. majority-owned foreign affiliates will boost capital spending in Australia 3.4 percent to US\$2 billion this year.

The Australian economy, though struggling to find its way out of an economic morass, has an undeniably bright future, particularly in areas related to energy, resources, communications and information services.

"An Affluent, Attractive Market"

Says Alan Carroll, Australian Director of New York-based Business International Corporation: "There'll be an enormous market for the whole information technology industry. Australia is an affluent, attractive market."

This market spills over into leisure and sporting equipment, VCR software, toys, kitchenware, hardware and do-it-yourself equipment.

The best opportunities in energy and mineral resources—apart from buying a direct share in a project—lie in providing construction, mining and earth-moving equipment. Areas of continuing high potential include supplying oil and gas field equipment and related goods and services, agricultural equipment, computers, business equipment, telecommunications equipment and systems, health care items and security and safety equipment.

U.S. companies furnish 22 percent of Australia's imports and take 11 percent of its exports; the balance of trade favors the U.S. by almost US\$3 billion. Australia is America's 12th-largest market. Easily Australia's biggest supplier, America, as a market for Australian produce, falls well behind Japan and marginally behind

the EEC.

Australia, with a resource-rich land mass almost as large as the U.S.' but populated by only 15 million, exports roughly half of its production. Best known today for its mineral and energy wealth, exports of these commodities have risen dramatically in the 10 years since Britain's accession to the EEC.

Japan is now Australia's major trading partner, a result of the symbiotic link between the growth of Australia's mining sector and Japanese industry. Although Japan supplies 19 percent of Australia's imports, it takes 27 percent of its exports. But its influence is best viewed in the context of the mining industries it helped spawn.

The Japanese Connection

Japan's increasingly voracious appetite for raw materials during the 1960s and 1970s coincided with a wave of investment in Australian exploration and development, and Japan now takes 40 percent of Australia's mineral and energy exports by value—including 76 percent of iron ore and 72 percent of coal.

When the second oil shock of 1979 saw Japanese industrialists plan a wide-scale conversion from oil-fired to gas-, coal- and uranium-powered plants, a new investment wave swept Australia. Many export-oriented coal mines were planned, while existing mines greatly expanded capacity. It was badly timed; new mines or expanded capacity are now unjustified before 1987 at the earliest.

Facing Obstacles

More worrisome longer-term, however, is an erosion of Australia's competitive advantage.

Escalating wage claims, rampant industrial disputation, and non-wage costs of employment have allowed other nations to chip away at Australia's traditional markets. The problems are starkly illustrated in a recent survey of 100 of Australia's largest companies by the Australian Industries Development Association.

With Australia entering its second decade of double-digit inflation and more than 10 percent unemployment following the election of a Labor Government in March, a national summit of employers, government and unions was held to promote a spirit of na-

tional conciliation.

"We Aim to Capitalize"

Australia's prospects, however, are not as bleak as they appear. "We believe that the present economic conditions should provide attractive investment and advisory opportunities on which we aim to capitalize," wrote joint managing directors Peter Letley and Neil MacLachlan in the latest annual report of merchant bank, Wardley Australia. Wardley, an affiliate of the Hongkong & Shanghai Banking Corporation, is just one of more than 70 international bank affiliates which, despite being denied access to local commercial banking licenses, are making a very handsome living servicing Australian businesses.

Even the daunting prospect of a \$16 billion government debt rollover during the next five years and its implications for Australian interest rates offers investors a good opportunity. Said Wardley in a recent economic survey: "With capital inflow needed to finance Australia's structural current account shortfall increasingly geared to short-term loans and the Government's securities market, interest rate differentials, particularly with the U.S., must be favorable and attractive to investors."

And, despite labor cost problems, Australia remains a politically and economically safe investment region. Its competitiveness will be restored, either because the unions will recognize that higher demands are merely boosting unemployment or because capital-intensive operations are gradually replacing labor-intensive manufacturing.

John Macleod, chief economist for mining giant CRA Ltd., points out that the growth of Australian manufacturing took place after the Second World War, when Australia's open door immigration policy—for Europeans, anyway—enticed hundreds of thousands from devastated Europe. Establishment of a manufacturing base was a bipartisan policy, resulting in a protectionist wall and industry incentives designed to guarantee local market share. The trade-off was jobs.

Much of the protection still exists today. The worst excesses are found in the textile and automobile industries. "We are effectively shackling our export industries by these inefficiencies," says Macleod, citing a recently

published report showing that the cost of production is ultimately borne by export industries.

Pragmatic Socialists

Ironically, the new socialist government of Robert Hawke appears to be taking a more pragmatic view than did Malcolm Fraser's Liberal-National Party coalition. In its first few months of office, as thousands of workers in coal, steel and automotive industries were laid off, the government's major initiative was humanitarian—but not economically suicidal.

For example, the Australian subsidiary of General Motors, General Motors-Holden's, lost \$126.6 million in 1982, taking its cumulative losses to \$250 million. GM has had no dividend from GM-H for five years. When the company finally decided to scale down its integrated manufacturing operation to one more of assembly, the government approved.

Concerned only that work force reduction be achieved by voluntary means if possible, the minister for industry and commerce, senator John Button, approved GM-H's plans. Although he didn't mention it specifi-

cally, he implied that the fault lay evenly with company management and governments.

In other ways, also, the Hawke government is demonstrating that its main concern is gradual, orderly economic recovery with equal emphasis on reducing unemployment and inflation. However, its attitude to foreign investment appears confused at best.

In May, treasurer Paul Keating took the first official steps toward recovery when he brought down a mini-budget, which contained a \$500 million package of job-creation schemes (aimed primarily at housing and construction) as well as a \$1 billion revenue package that removed tax concessions formerly applying to lump-sum superannuation permits and social security benefits.

By and large, the government is being accepted as economically responsible—but it has also gained a reputation for taking a hard line on foreign investment.

Basically, Australia's policy is that all non-property foreign investment proposals involving more than \$5 million (including transfers of Australian assets from one foreigner to

another) be submitted for government approval. As a rough rule of thumb, 50 percent Australian equity is desired, if possible, although the real determinant appears to be "net economic benefit."

During the 1980-81 financial year, the Fraser government rejected 47 proposals valued at \$166 million and approved 1,209 (847 without conditions) worth \$5.44 billion. The Hawke government rejected 6 of the first 10 proposals put to it. At least one proposal was rejected because the government felt the net economic benefits were not sufficient to offset loss of Australian ownership.

Foreign Banking

Treasurer Paul Keating denies the new government is taking a hard line on foreign investment. He says the government is treating proposals case by case until it can complete a review of foreign investment policy. One area of particular interest is the banking sector. The predecessor Fraser government had planned to license "about 10" foreign banks; Labor is opposed to foreign bank entry. Keating wants more banks, and if sufficient local institutions cannot take up his challenge for more competition, he says he will review foreign bank proposals.

In the meantime, those proposals most likely to find favor will be aimed at further developing Australia's resources by undertaking mineral processing in Australia. Presently most of Australia's minerals are exported in their raw form.

A 1980 government study into the potential for raw materials processing in Australia noted, "Much of Australia's past mineral development has been achieved by cooperation between Australian and foreign interests. Besides the availability question of investment funds, it is recognized that access to technology, expertise and markets is facilitated by foreign participation."

Stockbroker Laurie Cox of Potter Partners thinks the establishment of more onshore processing facilities, as the answer to Australia's declining competitiveness, has a "very exciting" future.

Cox is supported by CRA's Macleod who says the scope for processing in Australia is "very, very large." Aluminum is the most frequently cited example of how Australian processing can contribute greater added value to the economy. Australia has abundant cheaply extractable bauxite and coal, and therefore can efficiently produce alumina and

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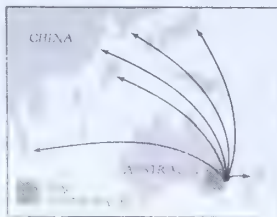
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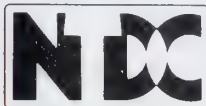
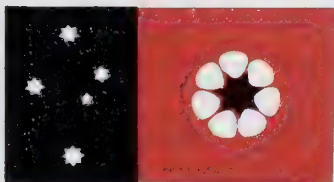
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"On the Edge of Asia"

"The other principal factor is that we sit on the edge of Asia," says Macleod, "the fastest growing area of the world. We will see affluent countries growing in the region. Not many of them have mineral resources of their own. They've got tin, some oil and some gas—but not the resources nor the quantity Australia has."

"That's the Opportunity"

"If they can look south and see Australia as a cheap source of high quality product, which is competitive by world standards in terms of supply, quality and quantity, then it is possible they will buy from us."

"That's the opportunity. Whether we capitalize on it or not is another matter."

The argument is taken up by Hugh

Morgan, executive director of Western Mining Corporation and president of the Australian Mining Industry Council. "The role of competitiveness is really the lesson Australia must learn," he says. "We have been shielded from the world economy for the past 20 years by the high rate of capital inflow. We have consumed that, and lived off part of it in anticipation of sharing in future tax rewards from the enterprises."

"Now there has been some hesitation in the capital inflow [and] we have got a demonstrably diminished export revenue in real terms because of commodities falling off—exacerbated by the drought, which caused the virtual halving of the 1982-83 wheat crop, at a cost of \$1 billion."

I would hope that most Australians would wake up to the fact that we are not an island economy. The world is an interdependent place and we are at the front edge of that interdependence."

Nevertheless, Morgan, like others, remains optimistic. Morgan is particularly bullish about exploration prospects with new technology. "It is opening up new horizons that have never been looked at before over the great mass of Australia."

Oil and gas exploration, particularly, should benefit. A survey by the Australian Petroleum Exploration Association revealed that more than \$1.4 billion will be spent, up from 1981's \$944 million. Exploration activity—230 wells at a cost of \$750 to \$800 million—was easily a new record in 1982, but will not be repeated in 1983.

Yet, by any international comparison, Australia's oil exploration effort is woefully inadequate. APEA chairman Ken Richards says Australia must double its discovery rate of approximately 100 million barrels a year to maintain 70 percent self-sufficiency in oil as production from existing Bass Strait fields tapers off.

Australia needs foreign investment, capital and expertise—and, most of all, overseas partners to buy its products. Australia's challenge is to restructure a grossly inefficient heavy manufacturing base, to open up new mines and processing facilities and to apply new farming technology to its vast tracts of arable land.

Joint Venture Sought

Leisure industries also offer great potential. Sydney-based investment consultant Jeffrey Dalco, for example, would like to set up a joint venture with U.S. tour package to

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exploit Australia's natural wonders and climate. Dalco also organizes investment seminars as part of his link-up with the International Business and Investment Exchange and sees tour packaging as a natural corollary.

Dalco, who for the past three years has been providing foreign investors assistance in identifying suitable investment opportunities in Australia, says, "Most people find Australia not only exciting, but also comforting in its familiarity. Americans say, 'It is like going to another state in the U.S.'"

The services his corporation offers include educational investment seminars for groups, with special attention to their particular areas and interests. Through his affiliation with Source International Inc. in Dallas they maintain close contact with what American investors need to know to make successful investments. The next major Australian investment seminar will be held in May 1984.

Jeffrey Dalco also says, "Americans who have been to visit with us tell us that our tourist potential is unlimited, particularly in places like Tasmania and the Northern Territory, which they feel are unique in the world today."

Tasmania's two major industries, tin mining and timber, were virtually closed down during the recession, creating a much more liberal government attitude toward investment proposals. For example, when a local subsidiary of Switzerland's Sandoz told the government it was planning to relocate an outmoded and money-losing plant to Singapore, the Tasmanian Government quickly offered a lucrative incentive package. Tasmanian premier, Robin Gray, is promoting Tasmania as the most attractive state in Australia to start a new business.

The Northern Territory is also seeking to boost tourism, capitalizing on its proximity to Asia. This is also a considerable industry boost for companies planning to operate or trade in the region. A small local engineering and pastoral company, Henry & Walker, has already had several successful discussions with the Indonesian, Korean and Malaysian governments and is expecting to participate in several large infrastructure contracts.

The resource-rich Northern Territory, faced with the fiscal responsibilities of full statehood in five years, is actively seeking investment to boost its future revenue base and provide employment. With government support, including a negotiable

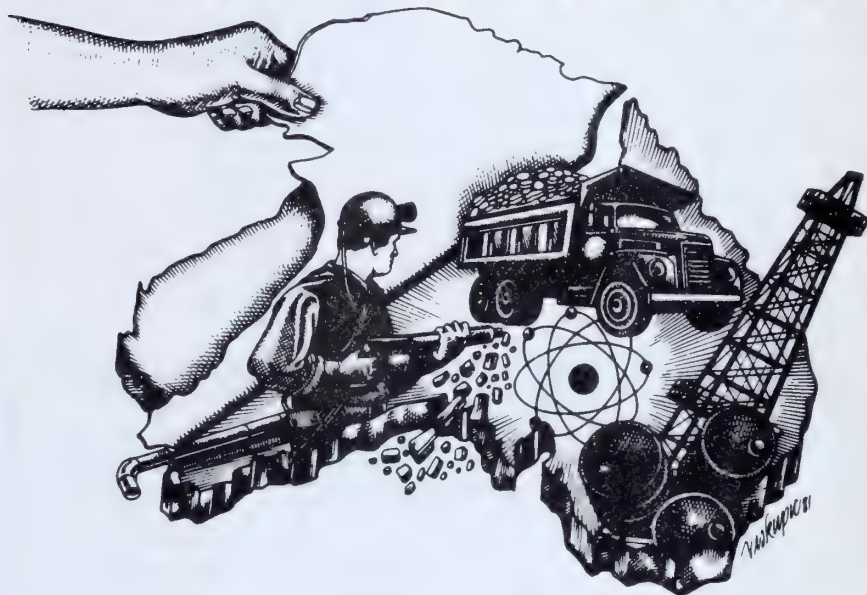
finance package and guarantees, provisions of land, housing and other services, the Territory has already attracted resource developments worth more than \$4.5 billion. "Now is the time to look to the Territory for investment," says Ray McHenry, straight-talking chairman of the Northern Territory Development Corporation. With a vastly improved infrastructure, Territorians see their capital, Darwin, as a perfectly placed

regional service center for Southeast Asia.

"The Way It's Going to Work"

Asia is opening its doors and Australian companies have been among the first to set up shop there, selling not only goods, but also services. "I think the opportunity for Australia is not only to ship the product but to ship the technology," says Elders IXL's chief executive John Elliot. "To

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have joint ventures there and help them upgrade their own agricultural production is the way it's going to work."

Last year, while analyzing future energy and mineral developments in Australia through the year 2000, a Chemical Bank study team predicted total investment spending in Australian resources would occur at a steady rather than frenetic pace, amounting to \$11.8 billion (1980 prices) in 1981-85, \$11.3 billion in 1986-90 and accelerating to \$31.9 billion in the last decade. Major areas of investment would be aluminum, alumina, bauxite and coal.

Foreign capital inflow, predicted the Chemical Bank team, would cover 40 to 45 percent of this investment and provide "positive benefits to Australia's balance of payments cumulating to \$100 billion (1980 prices) through the end of the century."

What does Australia offer in return? "Australia is a land of undoubted opportunity, politically and economically stable and therefore not liable to the risks that so many U.S. investors have encountered in Latin America and parts of

the Far East," says banker Michael Bato, a British expatriate who settled in Australia more than 10 years ago.

Quite apart from financial rewards, Bato has found other intangible rewards in Australia. "The quality of life is excellent," he says. "People live

in good homes, most within easy access of surfing beaches, and there are a large number of golf clubs for which membership is easily obtained.

"Apart from the financial rewards of living in Australia, the most attractive aspect is the lifestyle."

Recession Has Hit Australia's Corporate Profitability— But Only in a Minor Way by U.S. Comparisons

A recent survey of the December half-yearly profit reports of 229 listed companies by Melbourne stockbroker, JB Were & Son, found aftertax profits down 11.5 percent "on the good results of the previous corresponding period." (Australian companies are only required to report financial results twice a year.)

"Our rough calculations suggest the June half will record a fall of 10 percent over the depressed June 1982 results," Were's report

says. Other results of the study included: corporate cash flow fell 5.2 percent, interest cover has deteriorated from 5.4 times in December 1980 to 3.2 times in December 1982, dividend cover has declined 15 percent to 2.08 times.

For portfolio investors, Were offers the following sobering thought: "The economic recovery phase will involve considerable balance sheet repairing and so dividends will clearly lag profits."

	Percentage change		
	Dec 1981	June 1982	Dec 1982
Pretax profit	+ 13.8	- 5.7	- 13.4
Aftertax	+ 18.0	- 1.1	- 11.5
Dividends	+ 19.6	+ 16.6	+ 4.4

All monetary figures are in Australian dollars unless otherwise specified.

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Ferrovanadium Corporation NL strives to become Australia's first hard-rock titanium producer.

Huge titanium deposit seeks development capital.

MANY U.S. INVESTORS would have first heard about titanium—the “metal of the Titans” of Greek mythology—a couple of years ago when the Federal Emergency Management Agency (FEMA) announced its revised U.S. Strategic Stockpile Goals in 1980.

The FEMA figures, reflecting mineral and metal shortages vital to U.S. defense industries, indicated a new stockpile goal for titanium sponge (the pre-fabrication form of the metal) of 195,000 short tons—an increase of almost 50 percent over the 1976 objective.

With an existing inventory of around 32,330 short tons, the revised figure represented a massive stockpile shortfall of 162,670 short tons, or about five times the current total annual U.S. titanium sponge output.

At the time, strategic and aerospace demand for the metal were at record levels, with prices for locally produced sponge having doubled over the previous eighteen months.

Although the current world recession has dampened the market since, interest in titanium and its widening applications shows no sign of waning.

NMAB Titanium Study

In January this year, the U.S. National Materials Advisory Board (NMAB) produced a comprehensive study of the metal under the title “Titanium: Past, Present and Future.”

The study was promoted by concern expressed in industrial and government sectors “regarding the capability of the U.S. titanium industry to compete with foreign sources of supply and to meet current and anticipated defense and commercial demands.”

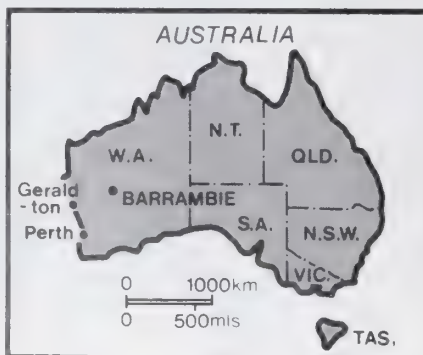
Two of the document's most interesting observations were on the world competitiveness of U.S. titanium sponge production, and the

size and content of the country's titanium stockpile.

Although the U.S. retains its lead in titanium mill products, its sponge production capacity is being overtaken by Japan and has been behind the Soviet Union's for several years.

On the stockpile question, the NMAB concluded that:

“The existing titanium sponge stockpile is much lower than its planned capacity, and a significant portion of that already low quantity does not meet existing specifications.... Moreover, the stockpile would be much more quickly responsive to a national emergency if as much as half of its total sponge authorization were replaced by ingots and perhaps by alloy ingots and mill products.”



Washington has certainly not ignored the NMAB study, and there is no doubt that titanium sponge remains a top priority on the stockpile acquisition list. With the U.S. Commerce Department reportedly drawing up a specification sheet for possible purchases, it is clear that titanium is once again emerging as a metal with favorable marketing opportunities in the future.

Depletion of Australia's Mineral Sands

But why should these recent events be of interest to resource developers Down Under?

The reason is that Australia is the

U.S.' major supplier of the raw materials used in the titanium industry—the minerals ilmenite (FeTiO_3) and rutile (TiO_2).

In 1978, Australia produced about 86 percent of the world output of rutile concentrates and about 30 percent of the ilmenite concentrates, in export trade worth over A\$ 100 million.

Although the country's world market share has dropped slightly in the past two years, Australia's beach-sand deposits still remain a major source of titanium minerals.

The big question, however, being seriously asked today is “for how long?” The local Bureau of Mineral Resources (BMR) recently indicated that beach-sand titanium reserves would be significantly depleted by 1990 because of a combination of factors—high mining costs, poor discovery rates and environmental restrictions on the East Coast.

Present demonstrated reserves of ilmenite are 45.13 million tons and rutile, 8.76 million tons. The BMR estimates that Australia's rutile reserves will be 51% depleted and ilmenite reserves 32% depleted by the end of the decade, assuming projected demand trends are accurate.

The Barrambie Titanium/Vanadium/Iron Deposit

One Australian company has been monitoring the changing currents in the world titanium raw material trade with more than a passing interest.

The Ferrovanadium Corporation NL is the owner of what is believed to be Australia's largest hard-rock deposit of combined titanium/vanadium/iron. The occurrence, known as the Barrambie Deposit, is located 420 km (261 miles) inland from the Western Australian port of Geraldton.

The deposit is geologically similar to areas now being mined by conventional open-pit techniques at Allard Lake, Canada; Tahawus, New York; Tellnes, Norway; Otanmaki, Finland; Witbank, South Africa and also most of the U.S.S.R. occurrences.

Evaluation studies have shown that the Barrambie Deposit is an ideal open-pit mining proposition. It is covered by negligible overburden and contains titanium/vanadium/iron in amounts large enough to justify the extraction of each metal.

Deep lateritic weathering, typical of this part of Australia, has also been of great commercial significance. By almost completely removing sulphur, calcium and magnesium, it has allowed the prepara-

tion of an electric furnace feed grade free from impurities deleterious to the production of steel, titanium dioxide slag and artificial rutile.

Fortunately, the deposit's relative isolation has been counterbalanced by its size. The mineralized body is at least 22 km (13.7 miles) long and up to 400 meters (1,312 feet) wide, with much of it still only partially explored.

Indicated (*in situ*) ore reserves of 27 million tons of 26% iron, 15% titanium dioxide and 0.70% vanadium pentoxide—assuming selective mining to a depth of about 50 meters (164 feet) and a 0.30% vanadium pentoxide cutoff grade—have been calculated by the U.S.-based Ralph M. Parsons Company to occur over a 2 km (1.24 miles) section known as the Bay Cove Ore Zone.

Inferred (*in situ*) ore reserves of 415 million tons of similar grade may also be present to a depth of about 60 meters (197 feet) according to geological consultants Geotechnics (Aust) Pty Ltd., based on analysis of the dimensions of aeromagnetic anomalies coincident with the deposit outside the Bay Cove Ore Zone.

To put these figures in perspective, Ferrovanadium Corporation NL points out that if proved *in situ* ore reserves of 40 million tons of 15% titanium dioxide are established in the future, this would be equivalent to almost 25% of the titanium dioxide content of Australia's demonstrated ilmenite reserves, and to almost 70% of its available rutile reserves.

A 1980 update study by The Ralph M. Parsons Company indicated that exploitation would involve open-pit mining of the deposit, concentration of the ore at the mine site and concentrate transportation via a 480 km (298 miles) pipeline to processing facilities in the coastal port of Geraldton.

Specifically:

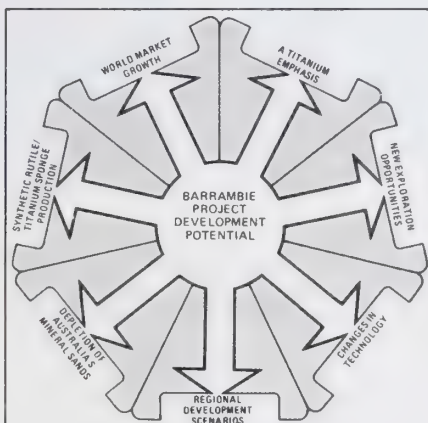
- (i) Capital investment of about A\$225 million;
- (ii) Transportation of a high-grade concentrate with an electric furnace feed grade of about 46% iron, 26% titanium dioxide and 1.25% vanadium pentoxide (and less than 4% combined silica and aluminum oxide) to Geraldton via slurry pipeline;
- (iii) The construction of a smelting and slag treatment plant at Geraldton capable of processing 500,000 LTPY (long tons per year) of concentrate; and
- (iv) The production of 216,450 LTPY of semi-steel or low manganese

foundry iron; 185,480 LTPY of 70% titanium dioxide slag and 5,441 LTPY of high-flake vanadium pentoxide.

New Review

In response to changing market demand trends and the impending depletion of Australia's mineral sands, the Ferrovanadium Corporation NL recently commissioned a study of the Barrambie Project's potential to become a major titanium producer.

The study—"Project Survey (1968-1982) and Developmental Potential Report"—confirms that a titanium perspective may well be the key to ultimate exploitation of the deposit. Further investigation of several new development possibilities, particularly in the exploration, mine planning, processing and evaluation sectors of the project has been recommended.



A review of earlier drilling and geological exploration concluded that not only is there an excellent chance that further work will upgrade existing ore reserve estimates, but also that the possibility of locating selectively mineable high-grade zones of titanium is good.

Certainly, if an upgrading of the deposit can be achieved it will increase its development prospects. The delineation of proved *in situ* reserves of 40 million tons of 26% titanium dioxide, for example, would be equivalent to over 40% of the contained titanium dioxide content in Australia's existing ilmenite reserves.

Ferrovanadium believes that if its planned exploration is successful, and sufficiently large high-grade zones are located, then significant reductions in mining rates, concentrator capacities and operating costs for the project could be expected.

Combined with the renewed optimism on the exploration front

there has also been further encouragement for the venture from preliminary studies of new processing routes designed to enable production of synthetic rutile and, possibly, titanium sponge.

Early indications suggest that synthetic rutile production could upgrade annual sales revenue by as much as an estimated 30%—from about A\$99 million to A\$129 million—reduce pay-out time by 50%, to four years, while increasing capital investment by only 7%.

With another output scenario—the production of 10,000 tons of titanium sponge together with 113,500 tons of synthetic rutile as an alternative to the previously proposed output of lower-priced titanium slag (70% titanium dioxide)—the increase in annual sales revenue would be a dramatic 110%—from about A\$99 million to A\$208 million—(capital cost increases for this scenario have yet to be accurately determined, but could be around \$100 million).

Processing Opportunities

The identification of these new processing opportunities for Barrambie has certainly been very timely.

A Commonwealth/State joint study group recently identified significant opportunities within Australia for a downstream titanium processing industry, particularly one producing synthetic rutile and titanium sponge.

A review of existing government policies that may be inhibiting the expansion of downstream processing, i.e. in the areas of energy and transport costs, investment and taxation provisions, export controls and incentives, infrastructure, environmental issues and royalties, was also urged in the study.

Given Australia's endowment in rutile (and synthetic rutile) resources and its favorable energy situation compared to other Western industrialized economies, the study concluded that "Australia would appear to have a comparative advantage in the production of titanium metal."

Although the study's terms of reference were restricted to beach-sand ilmenite and rutile, its conclusions are of equal importance to the future of Barrambie, with its hard-rock ilmenite and potential for synthetic rutile and titanium sponge production.

The Future

Against this exciting background

the Ferrovanadium Corporation NL believes that the Barrambie project, with its potentially huge tonnage of titanium mineralization, accessory iron and vanadium in amounts large enough to justify extraction and prospects for high-grade zones capable of selective mining, continues to represent a unique opportunity for international companies or consortia to participate in a future Australian hard-rock titanium industry.

With titanium's increasing industrial status and strategic importance, the company is convinced the Barrambie project is now looking like a more attractive investment proposition than it was several years ago.

With the impending serious depletion of Australia's other main titanium resources toward the end of this decade, Barrambie could conceivably emerge as a potential spearhead of an integrated downstream processing complex producing synthetic rutile, titanium sponge, semi-steel, high purity vanadium pentoxide flake and possibly a small amount of gold.

This is the scenario Ferrovanadium would like to see confirmed by further investigation of the new de-

velopment possibilities identified last year.

The company hopes that overseas investors will see this potential multi-million dollar project as one guaranteeing a long-term supply of vital raw materials for the titanium industry from a politically stable country committed to resource development as a priority of the greatest national importance, particularly in the present economic

climate.

For copies of the recent Barrambie "Project Survey (1968-1982) and Developmental Potential Report," please contact:

Ferrovanadium Corporation NL
15th Floor,
111 St. Georges Terrace
Perth, 6000, Australia.
Telex: 94936
Telephone: (09) 322 1266
Telecopier: (09) 322 4907



Outcrop of high-grade titanium/vanadium/iron mineralization at Barrambie, Western Australia.

A Profile: Ferrovanadium \$300 Million Ambition

An ambitious Australian mineral exploration company intends raising \$300 million internationally to mine its deposits of strategic metals in Western Australia.

The company is Ferrovanadium Corporation NL, and the planned mine is its tri-metal deposit at Barrambie in Western Australia; its two major minerals are vanadium and titanium. Ferrovanadium's managing director, Michael Evans, stresses the project "has significant long-term potential."

Evans has had discussions with the new Western Australian government in Perth and believes it would assist any attempt to mine Barrambie. "The Western Australian government is strongly behind resource developments in this state," he says.

But first Ferrovanadium is seeking development partners since Evans

Few Australian companies have the financial muscle to joint venture

Briggs, took control of Ferrovanadium a few years ago, he realized the company's future lay in attracting foreign capital. His first step in gaining a higher international profile was to buy a producing interest in 36 gas wells in Texas, giving Ferrovanadium its first substantial cash flow.

The second step, SEC registration and trading of its securities on NASDAQ, proved more difficult. Different reporting standards between Australian regulatory authorities and the SEC led to temporary suspension of trading and subsequent litigation.

Today Ferrovanadium has put all these problems behind it and additional producing U.S. oil and gas interests have been acquired. It is now participating in a 20-well drilling program in Oklahoma and its U.S. activities are supported by a \$10 million facility from a Canadian commercial bank.

In Australia, Ferrovanadium is exploring for precious and base metals and coal and, in keeping with its policy of minimizing expenditures, all of these prospects are joint

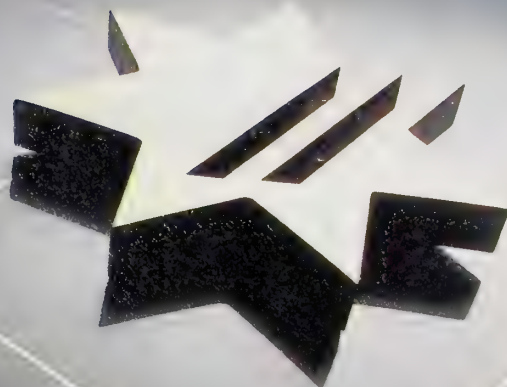
ventured. An affiliate of Exxon is searching for silver, lead and zinc on Ferrovanadium's properties in the northern part of Western Australia.

Ferrovanadium says significant discoveries of lead and zinc have been made by Shell and BP in the area. Exploration by the joint venture to date discovered several multi-element anomalies, and these are being followed up on during the 1983 field season.

The coal exploration is being done in association with RTZ's CRA exploration subsidiary about 150 km south of Perth. In addition, the company has an ongoing joint venture for gold with a group of junior Australian explorers and has an interest in a graphite prospect.

But Barrambie remains Ferrovanadium's main priority. Evans says, "Ferrovanadium will participate in the success that is enjoyed by Australia in the development of this country's vast mineral resources."

Ferrovanadium has recently appointed Kaufman & Maraffi, a public relations company, to represent the firm in the United States. Kaufman & Maraffi is located at 211 East 43rd Street in New York City.



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Need a sewer auger, a gorilla costume or a plastic stork? You can rent them all—and help someone else get rich.

An expensive way to borrow

By Jeff Blyskal

IF AMERICANS CAN'T BUY what they want, they charge it. But increasingly, consumers who can't do that are renting. Rentals of furniture, television

sets, tools and appliances last year brought in revenues of almost \$6.5 billion. Growth is as high as 15% in hot segments of the market, and corporate heavyweights like Borg-Warner, General Electric and Sears

see the potential of what used to be a fragmented and poorly promoted business.

No wonder. Although renting can be an expensive way for the consumer to acquire what he wants, it can bring handsome profits for the businesses involved. At \$70 million-a-year Gran-Tree Corp., which operates 80 furniture rental showrooms in eight western and southwestern states and Canada, return on equity hit 16% before the recession set in.

Today one can rent just about anything: the furniture, lamps, jackhammer and plant in the picture below; ladders, drills and paintings; gorilla suits; tables, chairs and dishes for parties; barbecue grills; garden tilling machines; video equipment; medical equipment; and less conventional things like bubble machines, sheep shears, igloo saws, even plastic storks.

Why the current growth? "Pride of ownership is not so strong as it used to be," says Roger Smith, director of membership services at the American

Rental Association in Moline, Ill. "People are becoming more sophisticated and want the use of the equipment." That's certainly true with tools that you might use, say, once a year. But why furniture?

Companies in furniture rental, which accounts for about \$400 million of all rental revenues, say their service is both a convenience in today's highly mobile society and a necessity for, say, a divorcee who loses the house and must furnish an apartment with what's left after alimony payments.

While most furniture rentals are paid for by corporations whose employees are on temporary assignment, more individuals are walking into rental showrooms today. "It could cost a person buying retail \$5,000 to furnish a one-bedroom apartment," says Jack Udelsman, owner of New York's I.S. Furniture Rental. "We can rent you that furniture for \$125 a month."

Convenience, of course, has its price. In little more than three years Udelsman's customers would pay enough to have purchased the furniture in the first place. That's because the interest rates that merchants factor into their charges run about 18%.



Everything is for hire.

Thus, a consumer with reasonable credit might be better off buying the furniture and borrowing the money from his local banker.

For a glimpse into how profitable rentals can be, consider the case of Mohasco, a \$560 million-a-year carpet and furniture manufacturer. Mohasco's rental division, only 8% of total sales, salvaged what otherwise would have been a disastrous year when the Mexican peso devaluation killed profits. The division earned a 20% return on assets and produced half of last year's \$14 million in operating earnings.

Buying at wholesale, furniture rental companies like Mohasco, GranTree and I.S. Furniture figure rental prices so that they recover their purchase price in ten months to two years. The real money is made on rental after that period.

Here's how rental profits roll in for the tool segment. Customers who want to avoid paying a plumber to snake the pipes can pay \$10 to use a hand-held sewer auger for four hours. The tool costs the rental store owner about \$250 and will last two to five years, depending on demand. Maintenance and replacement-part costs are minimal. After just 25 rentals, which could come in only three rainy weeks for this popular item, the auger is all

profit. "Some items pay for themselves in a year, others we turn over two, three, four times a year," says Michael Kupperman, owner of Acme Tool & Equipment Rental in Brooklyn, N.Y.

In TV and large appliance progressive rentals, where the renter owns the item after maybe 18 months, the economies are a little different. It costs \$93 a month to rent one GE color console model. After 18 months the renter owns the set and has paid \$1,674, which is nearly twice the discount price.

"It's a very profitable business," says Mel Daniel, a vice president at Borg-Warner Acceptance Corp., which finances many of the \$1 billion worth of progressive rental agreements Americans sign every year—often at prime plus 2% to 6% interest to the dealer.

Straight rental contracts, of course, are more price competitive. Granada Group Ltd., a \$760 million-a-year company, does a strong business renting TVs in Britain, where the practice is common. It recently moved into the U.S. with 29 stores. "This is a very lucrative, untapped market," explains Jeremy Rumfitt, president of Granada's U.S. operations. High-priced new-technology television and video equipment is getting Americans ac-

customed to the idea of renting, and two other big U.K. companies, Vision Hire and Rediffusion, also see potential here.

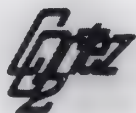
Stanley Works, the \$1 billion-a-year Connecticut toolmaker, last month acquired Taylor Rental Corp., a chain of 562 stores, for about \$12 million. "We believe equipment rental could grow 4% to 6% a year in real terms," says Tom Clarke, Stanley's vice president in charge of corporate development. Stanley plans to advertise rental products, something that renters rarely do now.

General Electric, meanwhile, is the first company to rent personal computers, and others are studying that market. U-Haul and Winnebago have announced a joint venture to rent mobile homes, which are too costly for many individuals to buy. Even giant Sears is studying the rental of television sets and is rumored to have approached Granada Group about a joint venture.

Renting clearly makes sense for businessmen. Does it also make sense for consumers? In cases where they have only occasional use for a piece of equipment, the answer is probably yes. But for things like living room sofas, large appliances and TV sets, it is simply a very expensive way of borrowing money. ■

This announcement appears as a matter of record only.

June 14, 1983



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Remember the good old days? Babe Ruth? The Marx Brothers? A nickel candy bar? But wait. Everything from those days isn't gone.

Cleaning the antitrust attic

By Richard Greene

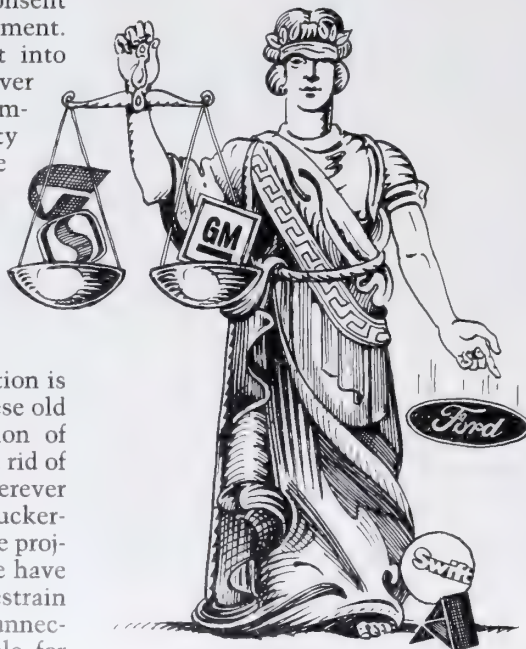
IMAGINE WHAT IT would be like if a company were doing business based on contracts and agreements signed back in 1920. No computers, no Social Security. Only a few unions.

Ridiculous, right? Not if that company had once been party to a consent decree with the Justice Department. Since the antitrust laws went into effect in 1890, there have been over 1,300 court decrees ordering companies not to engage in a variety of anticompetitive acts. Despite changes in the economy, such restrictions still legally apply and the government is still enforcing them. Recent decrees include ten-year applicability clauses, but earlier agreements run forever.

Now the Reagan Administration is moving to drop a number of these old decrees. "The basic commission of the Justice Department is to get rid of restraints on competition, wherever they come from," says Jeffrey Zuckerman, the official in charge of the project. "In this crazy situation, we have some decrees in place that restrain competition unreasonably and unnecessarily, and we are responsible for enforcing them."

The decrees have the force of law, so Justice cannot simply revoke them. Zuckerman must seek court approval for every decree he wants to junk. In recent months he has done so seven times. As a result, decrees will likely be dropped against General Motors, American Can, Continental Can, Timken Co., U.S. Borax, Safeway Stores and Chrysler.

To understand the positive effect of these changes, consider the agreement signed in 1945 with Borax, now a division of Rio Tinto-Zinc. It forbade Borax and Kerr-McGee from working together to mine borate ore, a basic ingredient in detergents. In the Forties those firms might have formed a cartel. But today Turkey has



become a major borate producer, preventing anyone from raising prices at will. Since Borax and Kerr-McGee couldn't join forces, however, Borax was unable to mine 27 million tons of borate ore that border Kerr-McGee property. If the courts accept the government's recommendation, those reserves will soon be available.

Then there's the decision to end controls on product pricing at

Safeway Stores. In 1957 Justice decided that its decree forbade Safeway not only to price products below cost but also to charge "unrealistically low" prices. Current law about predatory pricing, however, allows discounts, as long as they aren't below cost. So letting Safeway become more aggressive should benefit shoppers in markets where it operates.

The simple fact is that times change and the need for antitrust court orders frequently disappears. When Justice attacked Timken's overseas operations 33 years ago, the firm had substantial control of the world market for ball bearings. That's no longer the case, and it makes little sense for Timken to be forced to run its overseas businesses through divisions instead of subsidiaries, as the court order forced it to do.

Naturally, clearly outdated decrees, like the one that regulates the manufacture of rolls for player pianos, aren't the subject of great debate. But others can still be controversial, at least in some quarters. When Justice wanted to alter its restrictions on automobile companies' joining forces to develop antipollution devices, for example, Ralph Nader's minions quickly attacked the proposal. "The court agreed with us quite readily on the substance of the case," says Zuckerman, "but the Nader people were able to bollix it up for a year on procedural points."

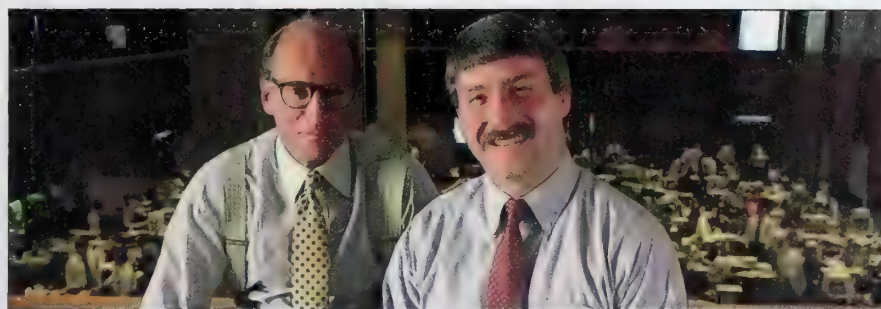
There are other situations when competitors get into the act on more practical grounds. About a year ago Justice agreed to free American Cyanamid from a consent decree that required it to purchase melamine—a chemical used in making plastic laminates such as formica—from an outside source. That supplier, threatened with a loss of business, contested the move. It lost, and the decree was dropped, although Cyanamid's supplier is appealing.

Unfortunately, the process of reversing antitrust decrees takes time. Meanwhile, Zuckerman says the Justice Department staunchly defends those that are still in effect. So even though Justice seems intent on amending the so-called Paramount decision, which prohibits motion picture companies from owning theaters, it used the decree recently to keep a group of investors from buying into Walter Reade theaters. "As long as something is on the books, we are going to enforce it," Zuckerman says, "even if we disagree." ■

In which two borrowers who may not even know each other agree to pay each other's interest, thereby enriching Wall Street.

Scratch my greenback

Miles Slater and Patrick Dunlavy above the Salomon Brothers trading floor
Three cocktail parties later everybody on The Street had invented it.



By Robert McGough

PATRICK DUNLAVY, seen above with his boss, has reason to smile. A Salomon Brothers vice president at 34, he quit trading bonds early enough to avoid burning out. Now he's running a three-month-old Salomon group busy with one of Wall Street's newest moneymakers, interest rate swaps.

Hardly anybody outside a handful of financial types has even heard of these swaps. "One of the beauties of these," Dunlavy says, "is that there are no tombstones, no registration with the Securities & Exchange Commission and no publicity."

Investment and commercial bankers have arranged about \$10 billion in interest rate swaps over the past year and a half. At heart, a swap is a scratch-my-back-and-I'll-scratch-yours deal, in which two institutional borrowers agree to take on each other's interest payments.

Why? Consider two typical borrowers in interest rate swaps: a European bank and a U.S. savings institution. The Eurobank can easily raise money in the fixed-rate Eurodollar market. But fixed-rate borrowing is unattractively risky to the European

bank. Its assets are loaded with variable-rate loans with yields that could fall below the bank's cost of funds. The U.S. thrift, on the other hand, has plenty of variable-rate liabilities, but its assets are loaded with fixed-yield mortgages. If variable rates rise, the thrift could also wind up paying more for funds than it is earning on loans. In a typical swap, the European bank would sell a \$50 million, seven-year note at a fixed rate of 11%. The U.S. thrift has an equivalent amount of variable-rate money market deposits, running now about 8.5%, a good 100 basis points (1 full percentage point) below variable-rate money available at the London Interbank Offered Rate.

The institutions then agree to meet each other's interest obligations. That means the European bank would wind up paying a variable rate under the rate on the loans it makes. The U.S. thrift would pay it about 12%—the 11% coupon plus 100 basis points—to cover the Eurobank's interest cost and other expenses. The thrift could then safely lend out mortgage money at 13% or so.

No exchange of obligations is involved. Each of the institutions remains liable to its own lenders. The institutions merely agree to provide

each other the funds to cover interest payments through the commercial or investment banker, who arranges the deal for a fee as high as 0.75%.

When interest rate swapping started in late 1981 the swappers were arbitrageurs. By swapping with European borrowers, troubled U.S. and Canadian industrial firms were effectively borrowing at lower rates than they would be charged in the U.S. Commercial banks such as Citibank and Bankers Trust stood in the middle to guarantee the swaps. Citibank claims to have done the first, but many of its competitors won't confirm that. The secrecy of the swaps, and the egos involved, make identifying the inventor tough. "Somebody invented it," says First Boston's Dexter Senft, "and by three cocktail parties later everybody on The Street had invented it."

But when the idea caught on with the Student Loan Marketing Association, which makes a large secondary market for student loans, purely domestic swaps took off. It has done \$1.7 billion in swaps, often with U.S. savings and loans. But the international market remains the big one. Investment bankers, with their sophisticated institutional clientele and an ability to underwrite bond issues anywhere, do more than half of all swaps. "When the investment bankers got wind of it, they put the pieces together," says Barbara Defino, who heads interest rate swaps for Merrill Lynch. She worked on swaps for Citibank before Merrill recruited her.

On the other hand, commercial banks have access to a broader range of client companies. Swaps almost always match up a strong credit with a weaker one. "We have better access to the weaker guys, they [investment bankers] have better access to capital markets," says Jonathan Berg, head of interest rate swaps in New York for Bankers Trust.

Lately Merrill and Salomon have started guaranteeing some swaps, as commercial banks do. Acting as principal involves the risk that one of the parties may simply walk away. Still, Salomon risks only the spread between the variable and the fixed rate.

Meanwhile, the fees add up. Salomon, a big player with more than \$1 billion in swaps, may have earned as much as \$8 million in fees, though Dunlavy and his boss, managing director Miles Slater, won't confirm that estimate. Nor will they identify any of their swap clients. "By acting as principal," Slater says of his firm, "the privacy of the counterparties remains secure." Dunlavy adds: "They may not even know each other." ■

How do you separate the wheat from the chaff in today's frenzied new-issues market? Investors who did their homework might have recognized Damon Corp. as the real article nearly a year ago.

The birth of bioindustry

ARIDDLE: Last Aug. 16 FORBES suggested that Damon Corp., a Massachusetts-based manufacturer of scientific instruments and operator of clinical laboratories, might have a future with some restructuring. Wall Street saw it differently. Without earnings, the market said, Damon was overpriced, even at a bargain basement 5%.

What a difference a year makes. Damon now trades in the mid to high 30s, and it has spun off a new company, Damon Biotech, 2.4 million of whose shares were offered at 17 in June and snapped up by public and institutions alike. In less than a year, with no improvements in sales and with negligible earnings, Damon has increased its market capitalization more than 1,300%, from \$33 million to more than \$435 million, or \$65.50 per share. Few other listed issues on the New York Stock Exchange have done as well since the current bull market began late last August.

Why? The reason, although belatedly recognized by The Street, is simple: Damon Biotech owns the patents to a key process for transforming biotechnology from a laboratory curiosity into a real industry. Trade-named Encapcel, Damon's process was invented in 1978 by Franklin Lim of Medical College of Virginia, who assigned full patent rights to Damon.

Encapcel allows almost any biological materials, from enzymes to bacteria, to be protected during growth or activity, and then makes it possible to separate them out and encapsulate them efficiently and at low cost at the end of the production process. Encapsulation has always been a big stumbling block in bringing into widespread use such products as interferon and monoclonal antibodies—the so-called magic bullets that target in on

specific cells and hold out promise against cancer.

So far Damon Biotech has encapsulated pancreatic cells, which produce insulin. It has also used the process to produce human monoclonal antibodies and has an agreement with Hoffmann-LaRoche through 1992 to produce monoclonal antibodies from hybridomas supplied by the big Swiss pharmaceutical company. Hybridoma

Technology

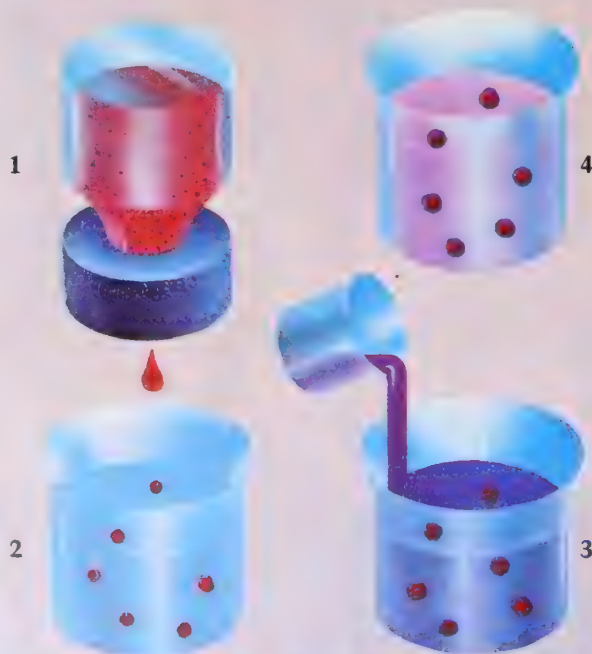
Edited by Stephen Kindel

mas are cells with desirable antibody-producing properties genetically spliced to rapidly reproducing cancer cells. Damon Biotech has also produced human monoclonal antibodies for several research centers, including the National Cancer Institute. In other research directions, it has experimented with controlled-release pharmaceuticals and the production of recombinant DNA products.

Encapcel's potential lies in its superiority to some biological methods now in use. For example, to produce monoclonal antibodies the typical procedure is to inject a laboratory mouse with hybridoma cells. A hybridoma tumor quickly develops in the mouse, from which cells are extracted. These are then grown in a tissue culturing medium. But to produce one kilogram of mouse monoclonal antibody requires 50,000 mice and about 100,000 liters of cultured tissue—enough cancer cells to fill a

Cell factories

Hybridoma cells—most often antibody-producing cells spliced to cancer cells—are grown more quickly, in greater number, with Damon's Encapcel process. Cells are mixed with sodium alginate in a droplet-forming machine (1) and ejected, forming spheres. These microspheres fall into calcium chloride (2), turning the droplets into a gel. A polymer, poly-L lysine, is poured into the gel, forming a porous membrane around the cells (3). Then a sodium citrate solution dissolves the gel and locks the cells within the membrane (4). At right: human hybridoma cells within their protective membrane.



good-size swimming pool. That tissue then must be purified by a complex series of steps. It's time-consuming and labor-intensive—the proverbial labor of an elephant.

There are other problems with mouse antibodies. For one thing, minute amounts of impurities and pyrogens—fever-causing fragments of protein—may remain in solution. These can cause severe allergic reactions in people. Further, nature designed mouse antibodies mainly to benefit mice; their protein structure is similar to, but not exactly like, human antibodies, so that their effect in fighting human disease is uncertain. Worst of all is that this complicated and laborious process is still only at the laboratory stage. Scaling it up to commercial production would be a nightmare: One would need vast mouse ranches—billions of animals for any drug that might be widely used—and the labor intensity would rise almost exponentially.

Enter Encapcel. In Damon's process, hybridoma cells are poured into

the hopper of a droplet-forming machine, along with a chemical such as sodium alginate, which is viscous at room temperature. The sodium alginate coats the cells, and the mixture is ejected as microdroplets into a solution containing isotonic calcium chloride, a form of common road salt. As the microdroplets fall through the air into the solution, they assume a perfectly spherical shape. Those gel-like microdroplets are then coated with another substance, usually a long-chain amino acid polymer such as poly-L lysine, and then washed in a solution of sodium citrate, which dissolves the alginate gel, leaving a thin surface membrane gel whose pores are of a controlled size, all surrounding the hybridoma cells. Routinely, more than 95% of the hybridoma cells that are encapsulated by this method survive the process, which, despite its technical complexity, takes only seconds and is completely automated.

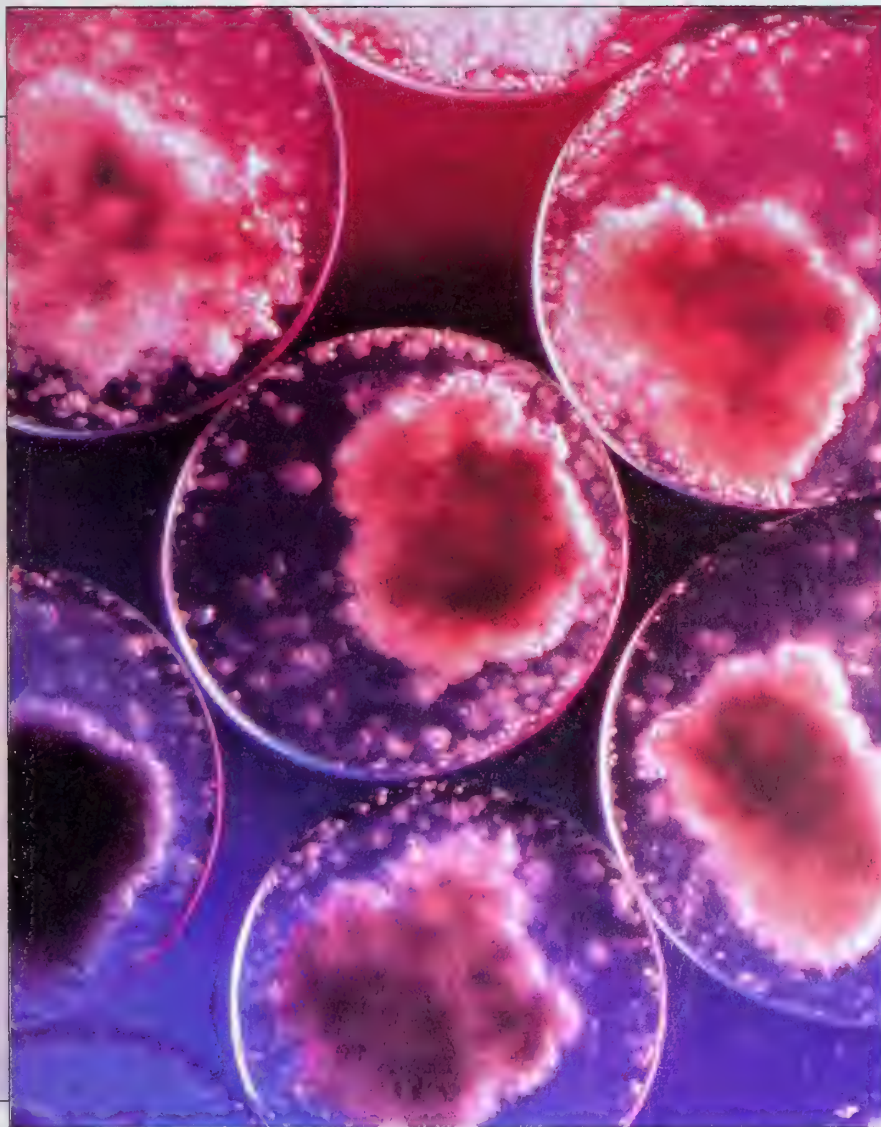
Once inside its Encapcel sphere, the hybridoma cell begins to multiply and

produce antibodies, just as in the body of a mouse. But it's not until they have multiplied sufficiently to fill the entire volume of the sphere that the hybridoma cells begin large-scale production of their antibodies. These, along with the cells, are harvested by bursting the capsules—washing them with a solution that “unzips” the membrane—and separating the hybridoma cells from the antibody liquid. At this stage the concentration of antibody is about four to five times higher per cell than in a conventional tissue culture.

But wait. Because cells have been growing happily behind their Encapcel walls, their concentration is higher. The same amount of hybridoma that requires 50,000 mice—one kilo—can be produced with only 1,000 liters of Encapcel-ated cells. And with no mouse solids to dispose of, almost no pyrogens or stray proteins, the purification process is very short and can be automated. The result: purified antibodies at 100 times the concentration of tissue culturing.

Increased concentrations of rare substances might be enough to justify production with the Encapcel system, but the process has its own economic justifications as well. The chemicals used in the encapsulation process—sodium alginate, calcium chloride, poly-L lysine, sodium citrate—cost, as Dr. Allan Jarvis, head of research at Damon, says, “pennies per ton.” While this is hyperbole—calcium chloride actually costs \$83 per ton—Jarvis' claim, and the patent wall Damon has built around it, is nonetheless valid. “All the chemicals we use are dirt cheap,” he says, “and we are not limited in any way to those chemicals. We have made dozens of kinds of capsules, depending on the size of the membrane holes we need. These, in turn, depend on the product we are encapsulating. Best of all, we have not just patented the capsules or the process for making them. We've patented the specific applications.”

In fact, growing hybridomas is one of the less useful things you can do with the Encapcel process, since it doesn't take full advantage of the capsule's membrane properties. Far more interesting is work being done on interferon derived from cultures of human lymphoblastoid cells—another type of tumor cell. Here cancerous cells multiply inside the Encapcel cells and, after treatment with a virus inducer, secrete interferon, which, being a protein of a sufficiently small molecular weight, passes through the membrane walls into the fluid surrounding the capsules. This separa-



Technology

tion of interferon from cancerous cells is extremely important because it largely insures against the possibility that a stray cancerous cell will find its way into any serum prepared for

without killing him financially, either). While such tumor-specific treatments are still in the early evaluation stage, Damon scientists are cautiously optimistic about their future. Too little is known, of course, about the cancer mechanism to be able to predict how well the antibody will work once it is produced.

Monoclonal antibodies and interferon are currently attracting the

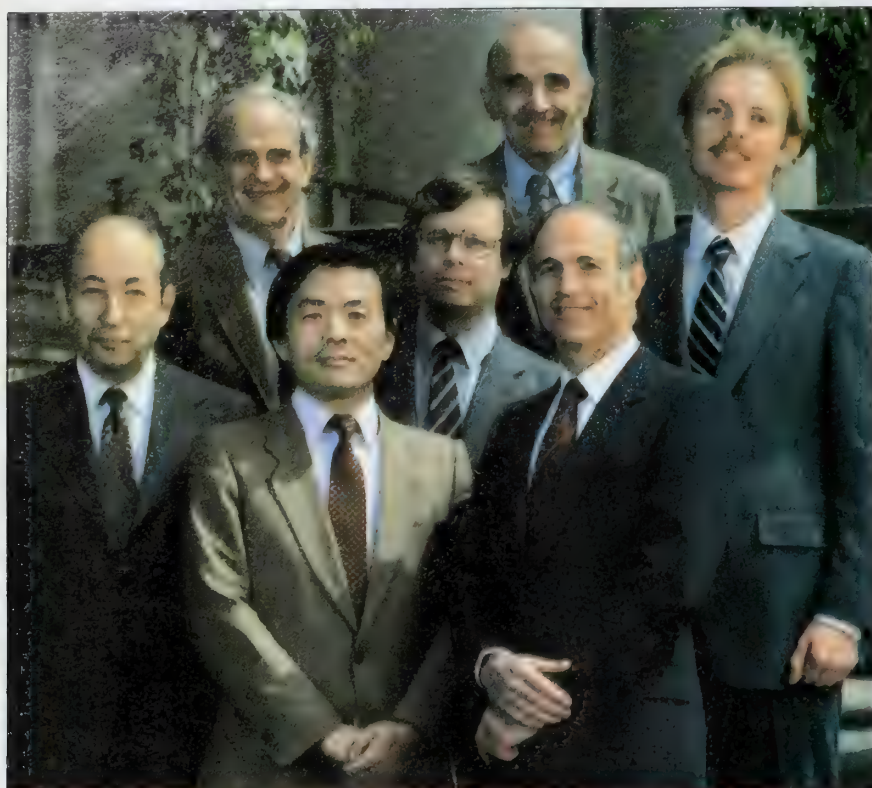
example, is finished, it must be drained off, the vat cleaned and the process started all over again. That means downtime. Downtime is not so important when you are brewing beer, but in the production of antibiotics, where the processes must be more carefully controlled, where batches are smaller and where more things can go wrong, there is a greater likelihood of downtime, and that gets expensive.

Can Encapcel change all that? "It certainly has the potential," says David I. Kosowsky, 53, Damon Biotech's chairman. "The Encapcel process, by providing that membrane separating the cells from the nutrients they act on, certainly eliminates some of the purification steps, which are most crucial in the production of antibiotics and vitamins." In addition, there is the possibility that Encapcel could also be used as the basis for a continuous reaction system, eliminating up-and-down batch processing entirely.

Why didn't the market recognize this potential a year ago? Says Nelson Schneider of E.F. Hutton, Wall Street's premier biotechnology analyst, "The market took a simpleminded approach to Damon. They tried to pigeonhole it, first as a monoclonal company, then as a genetics house, then as a pharmaceutical research company. It's none of these. But it's also the one company that could cut across all these lines and be important in every area."

That simplemindedness isn't hard to figure. It is easy to position a company's work at the beginning (research) or end (the production of drugs or interferon) of the biotechnology chain. But how do you assess the middle? Says Schneider: "In a sense, the Genentechs have already done what they set out to do, which is develop new products in the laboratory. But without the process and utilizations technology—that's Damon—most of the lab work can emerge as end products only with difficulty."

That's another way of saying that though Encapcel isn't as glamorous as interferon, it is useful in the way the assembly line was useful. And just as profitable.—S.K.



Damon's scientific board, with Chairman Kosowsky. Back row, left to right: Dr. Herman Eisen, Harvey Lodish, Dr. Irving London, Dr. Nigel Webb. Front row, left to right: Dr. Howard Green, Susumu Tonegawa, David Kosowsky

injection into a patient.

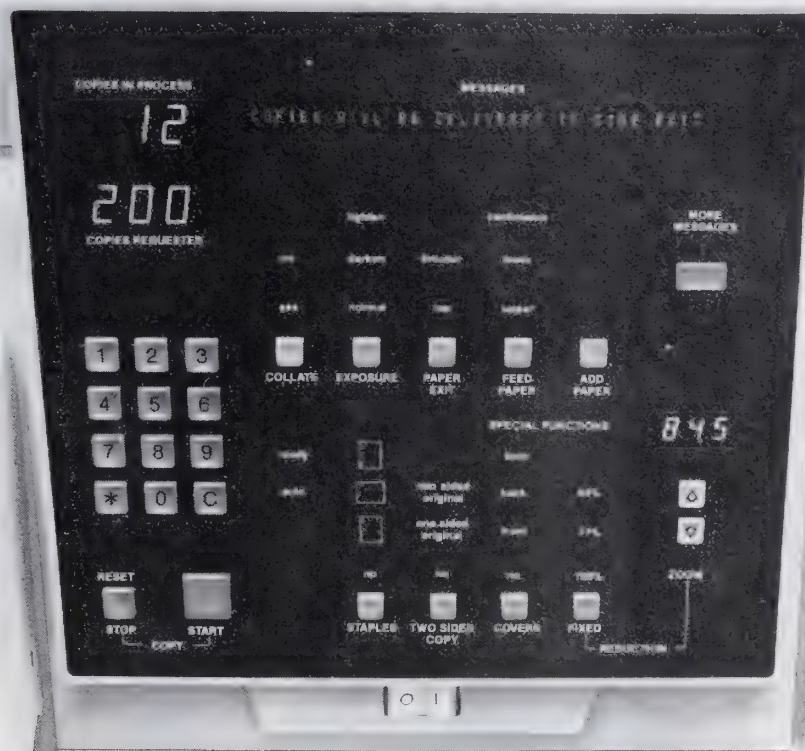
Many experts regard Damon's ability to mass produce human-derived antibodies and interferon, free of contamination, as the key to the process' long-term commercial success. From a laboratory investigation viewpoint, however, the ability to custom manufacture drugs is probably more important. For example, to develop monoclonal antibodies to treat certain types of cancer, such as B-cell lymphoma, it is necessary to extract white blood cells from a patient and prepare the antibody through an elaborate procedure. By the time a sufficient quantity of the patient's individual antibody is produced, he is often dead. The Encapcel process, on the other hand, short-circuits the production process and yields patient-specific antibodies in quantities large enough to be potentially effective in curing a patient's cancer in time (and

most attention, simply because the demand for these substances is so much greater than supply. But for the Encapcel process to be successful, it will have to become an industrial workhorse, able to compete against the most common biotechnological process of them all: fermentation. In common fermentation, yeast or bacteria, along with a supply of nutrients—usually sugars and proteins—is allowed to sit in a warm, dark vat until the nutrients are enzymatically converted into a desired product. The fermenting agent—the yeast or bacteria—is removed or killed off by pasteurization, and the remaining product is ready for use. Those products range from such familiar liquids as beer (or any alcoholic beverage) and soy sauce to many pharmaceuticals. But they all more or less suffer from the same flaw: They are batch-oriented, so that each time a vat of beer, for

Tilting at windmills

Of all the "lost" technologies revived by the oil shocks of the 1970s, few had as much charm as wind power. Not only was wind a renewable resource, but it was clean: no smokestacks, no waste. It was perfect for the dreams of the Small Is Beautiful crowd, who envisioned

Kodak announces The Programmable Copier-Duplicator



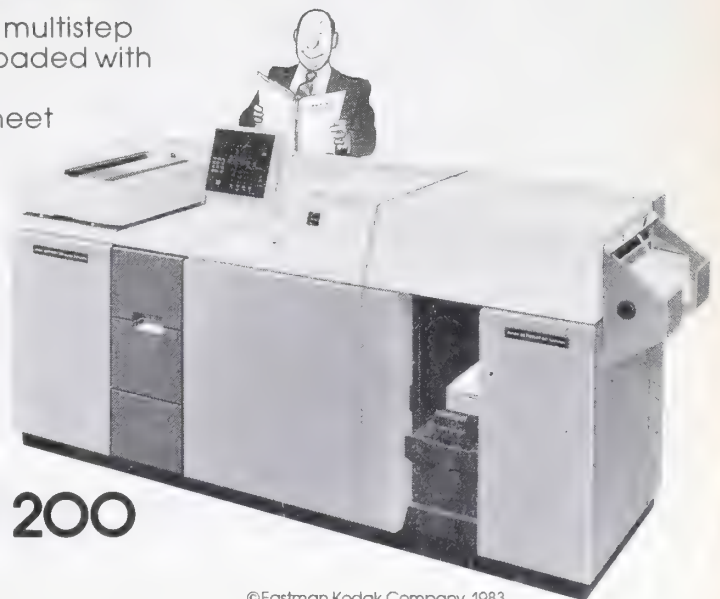
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Technology

thousands of easily constructed windmills churning out an energy-independent future for snug homes and peaceful communities.

Unfortunately, reality often runs full tilt into dreams—and windmills. Although the number of kilowatts produced by wind power has grown dramatically since 1979—from 4,000 kilowatts to 45,000 in 1982—the total amount is still negligible compared with the nation's 620-million-kilowatt electric generating capacity. Moreover, the direction that windpower has taken is not exactly the one its original adherents expected.

For example, in California a combination of generous state and federal energy tax credits has helped create what may be the fad of the year: the wind park tax shelter. In the last year two thousand 50-kilowatt-or-so wind turbines—each powerful enough to electrify about 20 homes—have popped up in areas like the windy Altamont Pass, east of San Francisco, and Tehachapi, Calif., near Bakersfield.

The wind parks sell electric power to utilities such as Pacific Gas & Electric, which by law must purchase it. But energy investment tax credits are what really make the wind park windmills turn. That's partly why U.S. Windpower, a company that began in Burlington, Mass. back in 1974 as a research outfit, headed west in 1981. U.S. Windpower assembles tracts of land leased from real estate owners, builds and sets up the turbines, hooks them to utility lines and then sells shares to limited partners. These investors get to use the tax credits and depreciate the turbines.

Business has been booming. U.S. Windpower, which is private, has taken in over \$100 million since it moved to California. It has built three parks (with a fourth under construction) and has installed about 600 turbines. The company expects to double that figure by mid-1985. And U.S. Windpower is not alone in discovering the tax-shelter advantages of wind power. Edward Dickson, an analyst at Strategies Unlimited, a market research firm in Mountain View, Calif., says there may be as many as 100 such companies now.

What happens when the ener

credits run out? Can the wind parks make a profit simply by selling power to the utilities? No one seems to know, though it's not surprising that everybody in the wind business is optimistic. But for the moment there's little chance of the federal credits' completely disappearing. Last year congressional supporters beat back an Administration attempt to repeal them before they expire in 1985. For its part, California has among the highest state credits and is currently considering renewal before they run out on Dec. 31. While the legislature has approved an extension, the governor has opposed it. "It's a strange area," says Dickson. "You

ware must run properly.

At a scale larger than the wind parks' 50-kilowatt turbines, windpower is hardly what the idealists foresaw. For a decade the Department of Energy has been funding research into monster wind turbines, multi-megawatt machines that cost millions to erect. The DOE worked with several large companies including General Electric, the Hamilton Standard subsidiary of United Technologies, Westinghouse, Bendix and Boeing. In early June GE announced a \$14.2 million contract with Hawaiian Electric Co. to build a 7,300-kilowatt turbine on Oahu, which could provide power for 3,500 homes.

That seems promising. But Louis Divone, head of DOE's wind program, admits, "The large turbines are still in the experimental stage. No one thinks [they are] going to produce power cost-effectively out of the crate." Then why is Hawaiian spending the money? "They're insuring their options," Divone says. "Every system has its problems; utilities want to look down the road."

For another answer to whether a thousand-year-old technology can compete in 1990 without government support, ask the residents of Block Island, R.I. In 1978 DOE put its first generation of giant wind turbines on the island, which sits 12 miles east of Long Island. For two centuries the islanders' old-fashioned windmills had used sea breezes to pump water and mill corn. But the DOE wind-

mill was somewhat different: 160 feet tall, with 62-foot blades and an expected output of 200 kilowatts, or enough to supply 50 homes.

Alas, the turbine proved unsightly on idyllic Block Island. And it made a whooshing sound. In addition, DOE engineers figured the blades might disturb television reception, so the agency wired the island (permanent population: about 450) for cable at the cost of \$500,000. After several years, the DOE took down the blades and went home, leaving the skeleton of the failure behind. The experimental wind turbine, it seems, cost more to operate than it produced in power.

Not that DOE didn't get a few technological nuggets from it all. One of the purposes was to test various blade materials. The best? Not exotic composites or alloys, but plain old wood.

Don Quixote could have told them that.—Robert Teitelman



A wind park in California's Altamont Pass
Left-wing ideals, right-wing tax shelters.

have leftward-leaning people in favor of wind for its social good and rightward-leaning people investing in it for independence and social isolation."

The fact is, wind will never be the most efficient energy source. Its competitors—coal, oil, nuclear, geothermal, hydroelectric, even solar—continue to develop despite their drawbacks. The potential of wind is limited; it will never blow any harder or more regularly. And improving the technology is no easy task, given that wind power has been around at least since 200 B.C., and probably earlier. That has been amply shown by the wind park's breakdown-prone turbines. Says Dickson, "They're going through birthing pains. There are about 2,000 turbines out there [in California], made by 20 companies. We still don't know which ones run reliably."

No matter. The tax credits are for installing energy-saving equipment. Nowhere is it written that the hard-

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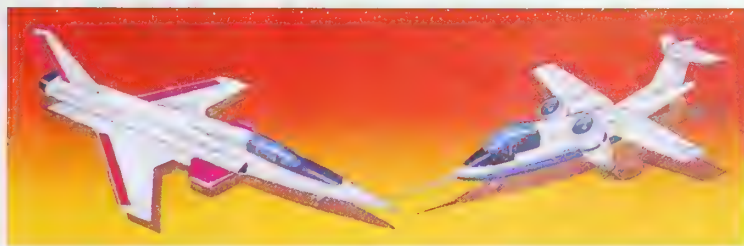
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THE TECHNOLOGY FOR THE JOB AT HAND.



French wines are affordable again. Thanks to mother nature and five straight bountiful harvests, and to François Mitterrand and the sagging franc, oenophiles are restocking their wine cellars.

Grape expectations

By Robert Teitelman

THE FRACTURED FRANC (now 7.5 to the dollar, against fewer than 4 only four years ago) has finally given relief to U.S. wine lovers weary of paying ever mounting prices for French wines. "There have been substantial price increases in France," says Richard Newman, president of The Buckingham Corp., a major importer. "But we've been able to eat those increases because of the strength of the dollar." This, at a time when the better varietal wines from California continue to escalate in price.

Even slightly older French vintages, like the 1978s and 1979s, are stabilizing or even dropping in price. "There's a downward pressure on those wines because of the popularity of the 1981s and 1982s—not necessarily because of the franc. They're already in the pipeline, already paid for," says Elliot Staren of MacArthur Liquors in Washington, D.C.

Also moderating prices is the fact that for five straight harvests Bacchus has been smiling on French vintners. Vintages in Bordeaux, the queen of French wine regions, have been rated very good to excellent in 1978, 1979 and 1981. Even 1980 was above average (see chart). Then came 1982, which was acclaimed by some as a truly great year, right up there with 1928, 1945 and 1961.

Even the Champagne region, in the north of France, has been getting some good news. It was overdue. Last year export quotas had been slapped on some kinds of true champagne because of dwindling reserves brought

on by a series of small harvests. But the 1982 harvest itself proved to be so good that the *caves* beneath the streets of Epernay and Reims were filled again. In fact, Michael Aaron, vice president of New York retailer Sherry-Lehmann, believes that champagnes are about the best buy around. "The prices are extraordinary," he says.

The best values in champagne are not in famous names like Dom Pérignon, which is wildly overpriced in the U.S., or in vintage labels, which offer little over nonvintage (blended) bubbly. Good nonvintage champagnes like Moët & Chandon, Perrier-Jouët, Piper Heidsieck and Taittinger can all be found in major retail outlets for less than \$15 a bottle.

It's Bordeaux, however, that holds the attention of most wine fanciers. Here the great *châteaux*, or estates, are organized into five ranks, or growths.

You won't find any steals among the five first growths (or *premier cru*): Lafite-Rothschild, Haut-Brion, Latour, Margaux and Mouton-Rothschild. "There's such a scarcity factor," says Peter Morrell of Morrell & Co., a New York retailer. "Each of the five produces about 20,000 cases a year, and demand is very, very high."

Prices reflect that demand. For 1979 first growths you'll have to pay anywhere from \$28 for a bottle of Mouton-Rothschild to almost \$40 for a Lafite-Rothschild. But that's still a relative bargain. A great

vintage like 1959 fetches from \$200 to \$300 a bottle.

But even among these first growths there are some sleepers to be had. A few of the first growths of 1980, not originally seen as a very good year, are developing far better than expected, especially the Mouton-Rothschild and Margaux, both available at around \$20 a bottle. Margaux at this price may be the bargain of the year. Robert Parker, publisher of *The Wine Advocate* newsletter, calls it "a terrific, if not fantastic, wine," perhaps the best in Bordeaux that year.

Among second through fifth growths, good buys are easier to find. Two of the best examples: Pichon-Lalande (1980: \$10) and Cos d'Estournel (1979: \$15), both from the Médoc region of Bordeaux and both well-respected wines. Other *châteaux* worth seeking: Nénin (1978: \$14); Prieuré-Lichine (1978, 1979, 1980: \$9 to \$12); Duhart-Milon-Rothschild, Lafite's "second vineyard" (1979: \$11); Grand-Puy-Lacoste (1979: \$11); Haut-Bages-Libéral (1979: \$9; 1980: \$6.75); Lynch Bages (1978: \$12.75; 1979: \$12.59); Montrose (1980: \$10). All of these come from the Médoc except Nénin, which is a Pomerol. Most should age several years before drinking.

Finally, there's an ocean of wine in Bordeaux that was never even classified. The best of these vineyards are *cru bourgeois*, some of which produce wine every bit as good as their more aristocratic cousins. Château de Pez, for instance, consistently ranks high among the vineyards of St. Estèphe, a village in the northern Médoc. The de Pez vintages 1978 through 1981



\$20



\$15

sell for between \$10 and \$13 a bottle, a very good value. Other good buys, usually priced at less than \$10, include: Gloria, Meyney, Talbot, Greysac, Chasse-Spleen, Beauséjour, Les Ormez de Pez, Fourcas-Dupré and Ramage La Batisse.

The glory of Bordeaux is in its reds, but there are some delightful whites as well, particularly from Graves, a region south of the city of Bordeaux. Parker particularly recommends one very inexpensive dry white wine from Entre-Deux-Mers, an estate between the Garonne and Dordogne rivers. The price for a 1980: a rock-bottom \$2.99 to \$3.99.

\$14 If the Bordeaux classification system is complex, the one in Burgundy is a nightmare. In Burgundy small vineyard owners often sell their grapes to larger merchants, *négociants*, who actually make and sell the wine.

To read a burgundy label properly, you should know the *domaines*, or estates, as well as the villages, the vineyards and the *négociants*. Use a retailer you trust to help you through this labyrinth, or subscribe to a newsletter like Parker's *The Wine Advocate* (1002 Hillside View, Parkton, Md. 21120; \$20 per year). Or you

can buy selections chosen by a small bank of importers who specialize in the region. Parker particularly recommends two: Robert Chadderdon in New York and Kermit Lynch in Berkeley, Calif.

Burgundies generally fetch high prices, mainly because the output is so low and demand so high. A high-quality burgundy, say a 1979 Lignier Clos St.-Denis, will go for around \$35. That doesn't mean you can't get quality red burgundies at lower prices. Peter Morrel recommends a 1979 Gevrey-Chambertin (that is, from the Gevrey-Chambertin region) that sells for \$11.95. Parker cites four Lynch selections in the same range. All are produced by Robert Chevillon from vineyards in the Nuits St. Georges section of Burgundy, and all are 1980 vintages. They are not easy to find but are worth asking for: Nuits St. Georges-Les Vaucrains (\$19.95); Nuits St. Georges-Les Cailles (\$17.99); Nuits St. Georges-Les St. Georges (\$19.95); and the very inexpensive Bourgogne Passe-tout-grains (\$6.50).

White burgundies are just as difficult to find. William Sokolin, president of New York retailer The Sokolin Co., recommends a

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Edited by William G. Flanagan

Puligny-Montrachet, either 1980 (\$10 a bottle) or 1981 (\$12 to \$15 a bottle). Another good value is a sometimes inexpensive Meursault (1981: \$10), which can be opened relatively soon. The white wines of Mâcon-Villages, a region in the south of Burgundy, are made from the chardonnay grape. Most Mâcons sell for less than \$7. Again, it's important to look for a reputable *négociant* or importer on the label. Examples: Louis Jadot, Georges Duboeuf, Joseph Drouhin and Louis Latour; or importers Chateau & Estate and Dreyfus, Ashby.

Burgundy and Bordeaux, of course, aren't the only wine-growing areas of France. There's the Rhône, which has recently produced a series of reasonably priced quality reds. A decent rhône can be bought for less than \$10. Again, it's helpful to recog-



\$10

French vintage guide 1970-81

Judging a wine vintage is an inexact art. Robert Parker, whose wisdom is collected in this vintage chart, thinks the 1982 Bordeaux harvest may yield "some of the greatest wines produced this century." High praise, but not the last word. The 1982 harvest was huge and, because of high summer temperatures, very high in alcohol. Most great vintage crops tend to be smaller and lower in alcohol. High-level alcohol content often produces a powerful early tasting,

only to wilt over time. A more certain verdict will be reached around 1985 when the '82s are bottled and sold. Meanwhile, consider other Parker judgments below. As you ponder, remember: Even in good years some estates produce poor wines, and in bad years some ship superb wines. The best advice comes from Alexis Lichine, a wine writer and owner of Château Prieuré-Lichine in Bordeaux: "Think of vintage charts as tables of generalities, full of exceptions."

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Bordeaux: Médoc Graves	90T	83R	55C	68C	70R	95T	82R	63R	93T	84T	74E	87T
Pomerol, St. Emilion	87R	87R	60C	73C	72R	95T	80R	65R	82E	87T	76E	84E
Sauternes, Barsac	84R	86R	50C	60C	50C	86T	86T	50C	73E	75E	85E	88T
Burgundy: Red	82R	87R	86T	70C	62C	50	86T	52	82T	75E	72E	70E
White	83R	84R	84R	84R	70C	65C	86T	75E	86T	80E	70E	76E
Rhône: Hermitage, Côte Rôtie	90T	84R	86R	72R	70R	73R	90T	78E	92T	83E	82E	82E
Châteauneuf-du-Pape	88T	82R	87T	74R	74R	63C	75T	72E	95T	83E	85E	84E
Beaujolais	—	86C	—	—	—	—	86C	50	84R	80R	60	83E
Alsace	80C	90C	55	72C	75C	82R	89R	70E	78R	84E	75E	86E
Loire Valley	—	—	—	—	—	—	86R	70C	85R	83E	72E	82E
Champagne	85R	90R	NV	82E	NV	90T	90E	NV	NV	85T	80E	86E

Legend: 90-100, excellent; 80-89, very good; 70-79, average; 60-69, below average; below 60, poor
R: ready to drink. C: may be too old. NV: nonvintage. **Boldface:** classic vintages for cellaring.

E: early maturing. T: tannic wine.
Source: The Wine Advocate

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nize a handful of quality *négo-ciants* (Guigal, Paul Jaboulet Aîné, Vidal Fleury) and *appellations*, or regions (Côte Rôtie and Hermitage in the north, for example, and Châteauneuf-du-Pape farther south). Parker recommends several wines from the north, near the villages of Crozes-Hermitages and St. Joseph: Coursodon St. Joseph (1980: \$9.29); David and Foillard Crozes-Hermitages (1979: \$5.59); Paul Jaboulet Aîné Crozes-Hermitages Thalabert (1980: \$6.49); Paul Jaboulet Aîné St. Joseph La Grande Pompée (1980: \$6.49). Farther south, in Châteauneuf-du-Pape, not far from Avignon, there's Château de Beaucastel (1980: \$8.99); Les Clefs d'Or (1978: \$12.95); Château la Nerthe



\$4.90

(1978: \$10.95); and Paul Jaboulet Aîné Les Cèdres (1980: \$10.95).

Some Rhône whites in the \$10 area are worth mentioning, names like Guigal, Paul Jaboulet Aîné, Grippat and Chave.

There are a host of other values in whites. A recent Sancerre or Pouilly Fumé, from the Loire Valley, can now be bought from around \$6. "These are both absolutely good-quality, high-value white wines, very dependable," says Robert Finigan, author of the bimonthly newsletter *Robert Finigan's Private Guide to Wines* (724 Pine Street, San Francisco, Calif. 94108; \$36 for 12 issues). He also recommends a look at Alsace, in eastern France, which produces sweet, inexpensive Rieslings and Gewürztraminers. He particularly recommends the 1982s and two producers: Trimbach and Hugel. Price: between \$4 and \$6.

Moral: Next time you are in a wine shop, don't bypass the French section, even if you are looking for relatively inexpensive wines to drink now, not to lay away in your cellar.

Executive retreads

It can happen anywhere, even in the most civilized and sensible organization. An executive, otherwise intelligent and productive, goes a little haywire, or loses enthusiasm or becomes intolerably overbearing with subordinates. In times past, after a warning or two, many such executives would simply be shown the door. Now, increasingly, management is calling in an executive rehabilitation consultant.

More than humanitarian impulses prompt such calls. Firing a high-level executive can be both risky—lawsuits are more common—and expensive. When outplacement, recruitment and training costs are figured in, according to one consultant, it could cost \$75,000 to remove and replace a \$75,000-a-year executive. Consultants claim they can usually "cure" such an executive for \$5,000 to \$15,000.

There are about 150 consultants in the country now counseling troubled executives. Most are lone practitioners or small partnerships. Typically they are industrial psychologists with experience at large corporations, and many have been prospering in the last few recession-wracked years. "This part of our business, treating such executives, has grown tremendously,"

says Andy Sherwood, whose 12-year-old company, Goodrich & Sherwood, also offers outplacement and a handful of other human-resource services. Paul Sherman boasts that revenues for his two-man practice have grown 500% since 1979. Another partnership, BeamPines Human Resource Consultants, claims to be busy and profitable after only two years in the business.

In most cases consultants strive to avoid disrupting the executive's office routine. "If you're contemplating daily shock treatments at the desk, that's not practical," says Sherwood. "The great majority of people who have developed physical and psychological problems can be treated on an outpatient basis where they don't have to leave the job. Sometimes, in a matter of days, these people can be turned around and made productive again. Then you can chip away at the things that got them into their depressed state."

The kinds of things that can derail a productive, steady-as-you-go manager need not be exotic. A crumbling marriage, a parent's moving in or a serious problem with a child might do it. Other common possibilities: a new boss, an abrasive colleague, a promotion that never came or, worse, a demotion

that did. Then there are physical causes—so-called male menopause, or the flare-up of an old back injury. Or any combination of the above.

No less diverse are the symptoms of a potential crack-up. These could include extreme and undue irritation with co-workers, overeating, resuming smoking after long abstinence, working behind a closed door or putting in unusually long or short hours at the office.

For the boss of a sourpuss, hothead or potential basket case, the key is to home in on the problem in its early stages. "Once it's identified," says Sherwood, "the first responsibility of a troubled person's manager is to help out, to take some of his load off, to be a friend, to get the person to talk about what the problems are." But Sherwood thinks some companies, meaning to be helpful, can make matters worse when they don't call in professional help early enough. "They let it ride," he says. "They say, 'It's his problem, let him work it out.'"

The trouble is, of course, it's often tough to tell the difference between a problem that would eventually be resolved without intervention and one that calls for treatment. According to Paul Sherman, this is especially true with alcoholics. "The alcoholic executive's immediate superior may sense a change in the character or performance," writes Sherman, "but will not connect it with alcohol abuse for many years. There is, however, a growing lack of trust, subtle and seldom put into words. The executive is called on less and less to handle difficult assignments or to make critical decisions."

"In some cases," he continues, "a vague connection may be made between drinking and the change in performance, but the problem executive is immunized by the 'halo effect,' an inability by the superior to separate past excellence from present uncertainty. The alcoholic executive is often insulated by secretaries and subordinates, whose performance is also affected adversely."

As in other healing arts, treatment varies somewhat among executive retreaders. But there seems to be agreement on some basic tactics. One is that the consultant will seek to involve one or more of the bosses during treatment. Another is that the mending process should interfere only minimally with the executive's work schedule. A third is that rehab consultants don't try to treat root problems such as alcoholism or marital woes. Rather, they refer the patient to the appropriate experts (e.g., Alcoholics



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Personal Affairs

Anonymous, a marriage counselor or a physician) and devote their own efforts to guiding the patient back to productive work as soon as possible.

How does rehabilitation work? With one outfit, BeamPines Human Resource Consultants, the first step in the process is to meet with the troubled individual's boss and find out why he is upset with the executive. "He might say the individual is 'having people problems,'" says Beam. "We want this broken down."

Next, the patient comes to Beam's Manhattan office for a full day of interviews and written psychological and other tests. That information forms the basis of a 10-to-15-page report which the executive sees and discusses with Beam.

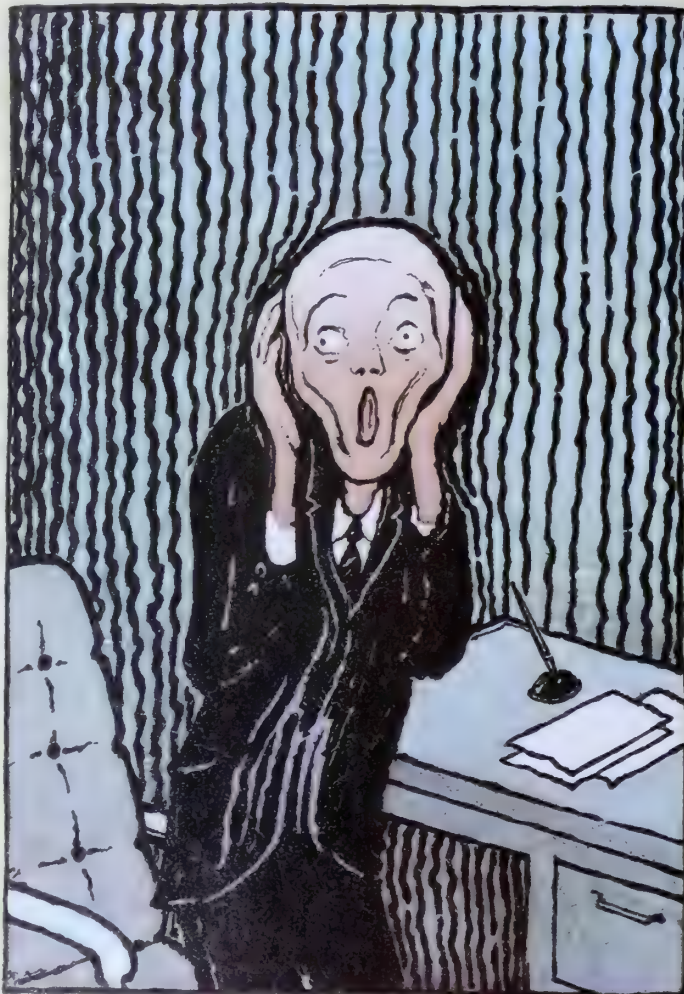
The executive himself shows the report to his boss, and the two of them meet with Beam soon afterward to establish how the executive should shape up. A series of coaching sessions between Beam and the executive follows, and other three-way meetings take place as needed. The sessions are much like those between a psychiatrist and a patient, except that consultants put more effort into solving the executive's work-related problems than into uncovering the causes of the problematic behavior.

The sessions are usually spread out over a four-month period, adding up to about 40 hours, including the executive's initial eight-hour testing and interview session and six hours of three-way discussions. Beam's fee is a flat \$5,000, which covers any additional "touch-up" the client may request. Fifty executives, most of them in the \$50,000-and-up salary range, have gone through the BeamPines program, including people from such companies as Warner-Lambert, Time

Inc., PepsiCo and Cahners Publishing.

Consultant Paul Sherman prefers to work on the executive's turf, usually his office. "Most of the time we talk about whether he's met the objectives that he has set for himself," Sherman explains. "He makes his own decisions with our guidance." Sherman's most intensive routine calls for one 30- to 90-minute session per week for 13 weeks, then biweekly sessions for 13 weeks, followed by six monthly sessions.

Sherman's fees range from \$150 to \$250 an hour, plus traveling expenses.



He treats 20% of his patients for alcoholism, 30% for "other behavior and medical problems" and 50% for "performance situations that have arisen because the organization has changed and the individual has not been able to adapt." His average executive earns \$148,000 a year.

Goodrich & Sherwood, with three psychologists on its staff, is among the biggest practitioners in executive rehab. One of its primary information-gathering techniques, used with high-level executives who initially refuse to admit they need help, is sneaky, but effective. Instead of frank-

ly telling the executive what it is up to, the G&S team pretends to be on a productivity-improvement mission. Only after several interviews with subordinates and superiors is the executive confronted with whatever "evidence" has been unearthed. (If the interviews elicit proof that the subject is not blameworthy, the G&S team goes back to the boss and tells him his perceptions of the subordinate are wrong.)

The executive is "taken down to the bottom of his fraud," as Sherwood puts it, through interrogation. "This is a very important part of the process," he explains. "It's like doing carpentry on a house that has termites. You have to keep going until you have extracted all the bad wood—and then reconstruct." In most cases, the executive's defenses collapse in the end and he admits he needs help. "At that point you've got him where you can work fairly effectively with him," says Sherwood, "because he knows that if he doesn't cooperate, it's curtains—he's finished. What we do then is make friends."

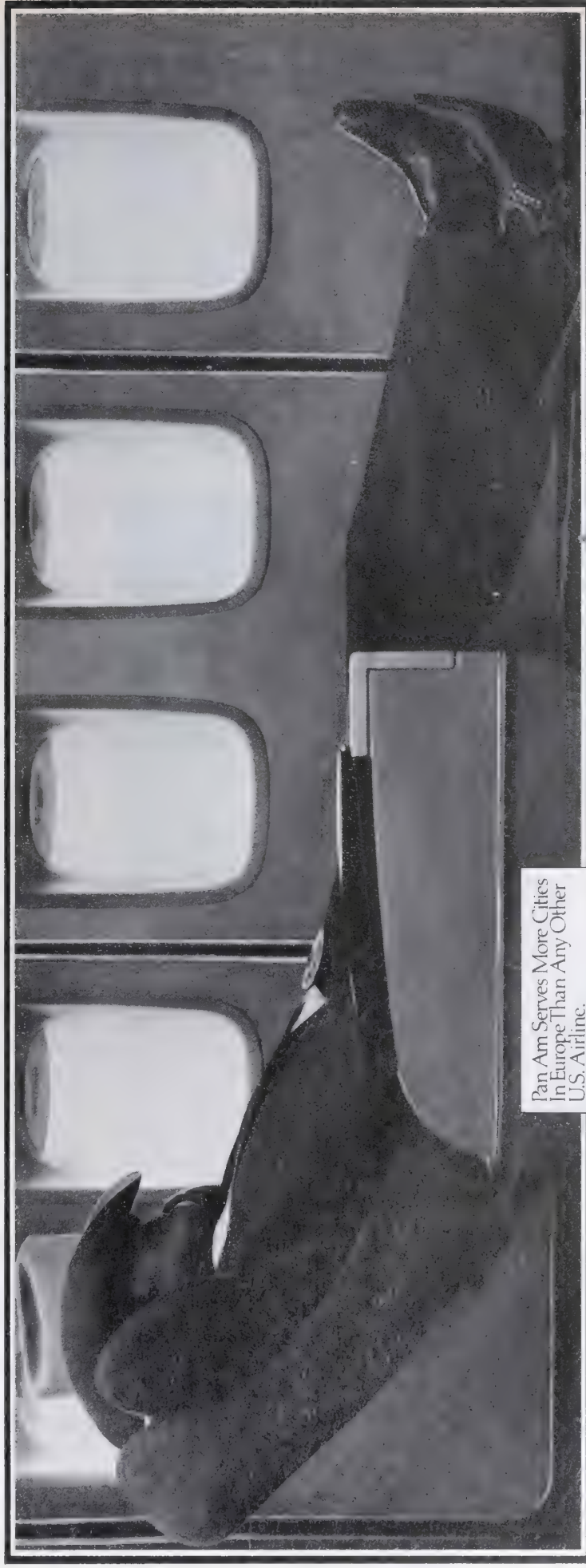
The subject is instructed to draw up a list of his personal and career-related achievements. The list, which can run as long as 15 pages of single-line entries, is scrutinized by a G&S staff psychologist, whose analysis of it figures significantly into the treatment of the executive. Later the subject is interviewed on videotape and shown the playback. If things go according to plan, he sees his own faults on the tube, and is further encouraged to change. "We work very diligently to be sure that our victories are absolute," explains Sherwood. Counseling sessions make up the remainder of the treatment, which generally costs \$200 an hour.

Is it all worth it, or do these executives revert to form once the consultants are safely out of sight?

"Some people will have relapses, others won't," concedes Sherman. "But there is nothing more powerful than the threat of job loss. And where a relapse occurs, that threat is reinstated."—Kevin McManus

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Faces Behind The Figures

Edited by John R. Dorfman

Divorce insurance

About half of all divorced women who are supposed to receive alimony or child support don't get the full amount due them. To most people that's a social problem. To Richard Saitow it's a business opportunity.

In New Rochelle, N.Y., Saitow, 49, has set up a firm called Family Sup-

Now he has a 25% equity interest in Family Support Systems, plus a salary exceeding \$150,000 a year as its president. Robert Isacsen, who conceived the alimony-insurance idea but couldn't execute it on his own, has a 30% interest. Most of the remaining equity is with the Pan Atlantic Group, which put up about \$1 million in seed capital.

Saitow, divorced and remarried, concedes that he has been late with some support payments when he was angry at his ex-wife. But he thinks that by taking on only good credit risks and by getting in touch with them quickly if payments lag, he can keep the default rate of his policyholders below 6.7%, the level at which he expects to turn a profit.

attorneys were so slow to move," laments Saitow. "We may have to resort to consumer advertising."—J.R.D.

Turnabout is . . .

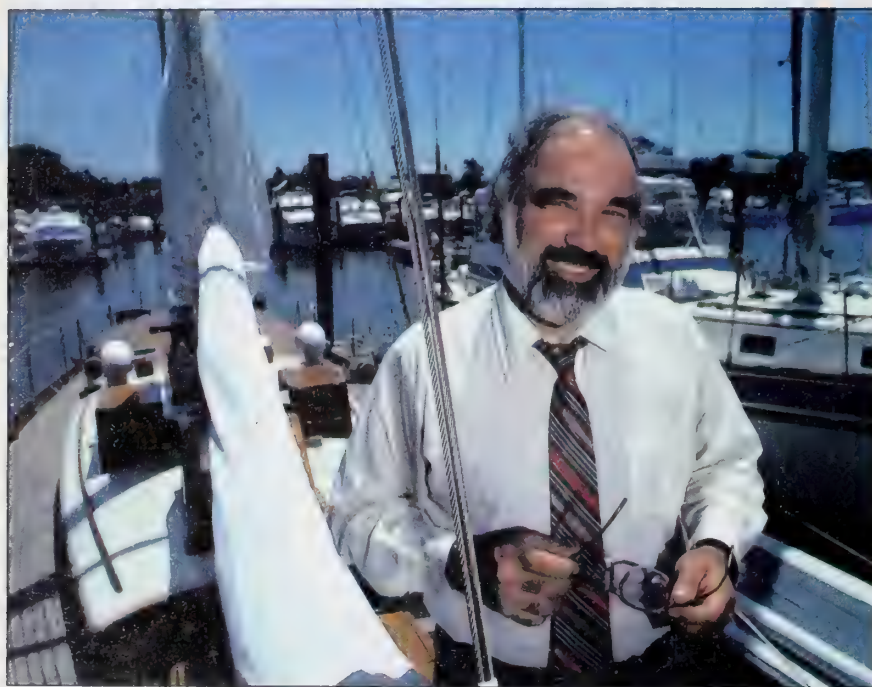
Some anonymous government bureaucrat, let's say, is leaking unpleasant allegations that your firm padded a contract, violated a regulation or polluted a stream. The allegations hurt, true or not. What to do?

Enter Franklin Silbey, a former public servant now hiring out to business as a "damage control" expert and practitioner of the arcane art of countenews leaking.

"Companies don't understand the whole world of congressional investigations and oversight," says Silbey, former chief investigator for the Senate Labor Committee and the Senate Judiciary Oversight Subcommittee, and an investigator for former Representative John Moss (D-Calif.). "What do companies do? They hide and say, 'It will go away.' Then they stonewall. They go to their Washington attorneys and say, 'Get us out of this.' Faced with the more formidable subcommittees, you can't stonewall. The staffs are smart, tough insiders with the discovery and subpoena powers of Congress." For a fee of \$10,000 a month, Silbey advises companies in such a fix to "cooperate immediately." Quick, honest disclosure dampens investigators' appetites and limits hearings. And, if necessary, Silbey will leak dirt on your competitors to regulators, Congress and the press with little trace of the source.

He should know how to do it. Until going into business this year as PCC, Inc. (for procurement, contracting and consulting), Silbey spent 16 years dogging manufacturers, bankers and bureaucrats for Congress. Whistle-blowers handed "dynamite" to Silbey's bosses and he lit the fuses, calling hearings, triggering General Accounting Office audits, leaking exclusives to investigative reporters around town. Remember when Congress killed the Air Force's \$1 billion computer, Project Max, or the \$2 billion Internal Revenue Service computer network that was supposed to be Big Brother? These actions, he claims, were largely the result of Silbey-orchestrated extravaganzas. "Bureaucrats would be sitting around with wish lists, saying, 'Wouldn't it be wonderful if we could do this or that?' Then we'd find out about it. Sunlight is the best disinfectant," says Silbey.

PCC is getting financial backing from Max Hugel, the New Hampshire businessman who resigned as deputy



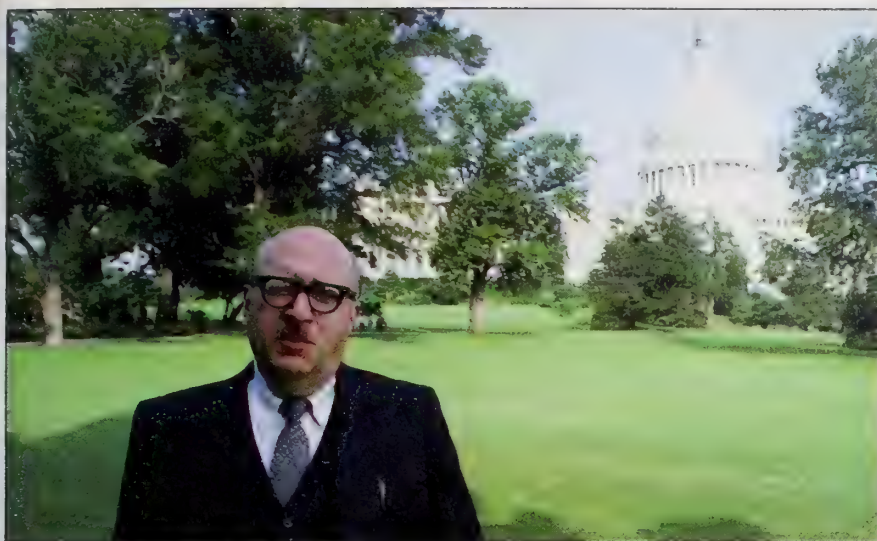
Insurance innovator Richard Saitow
No slave to convention.

port Systems, selling alimony and child support insurance. How can such a product make money when the national default rate (in dollar volume) is over 30% of the obligations owed? Replies Saitow: by careful risk selection and loss control.

No slave to convention (he lives on a 50-foot yawl, sports a beard and wears blue jeans to the office), Saitow is no stranger to the normally staid world of insurance either. For ten years he was an account executive at Johnson & Higgins. He left in 1976 to work for Alexander & Alexander, encouraged by a \$350,000 signing bonus. But Saitow clashed with management at A&A and later at two other firms—Bayly, Martin & Fay and BRI Coverage Corp.

The insurance is issued by the Republic Insurance Group (Dallas) and the Old Republic Insurance Co. (Chicago). Family Support Systems will market and administer the policies. Coverage is for only three years (renewable in some cases). That's long enough, says Saitow, for a divorced spouse to remarry or financially readjust. The premium is about 6% of the amount due over the three years. Of that, Family Support Systems gets about 35%.

Plaintiffs' attorneys, Saitow figures, will press for inclusion of the coverage in divorce settlements. In June, about a month after startup, Saitow and his staff of 22 had received more than 700 calls from attorneys but had yet to sell a policy. "I didn't think



Ex-investigator Franklin Silbey

The fine art of damage control and counterleaking.

director of the CIA after the *Washington Post* detailed some stock transactions in which he was involved. Why Hugel? In part, says Silbey, because Hugel realized how little he understood about the workings of congressional investigators and the press before he got clobbered in the papers. Hugel had reason to suppose there was a market.—Allan Dodds Frank

Anchors aweigh

"This is nothing but a grubby asset-stripping operation," said an irate shareholder at the annual meeting last month of Britain's venerable Peninsular & Oriental Steam Navigation Co. Not so, replies one of Britain's shrewdest raiders. Nigel Broackes, 49, is founder and chairman of the \$1.5 billion (sales) real estate, construction and shipping conglomerate, Trafalgar House. In May he offered about \$465 million (in a stock-trade offer) to add the proud but lackluster \$1.9 billion (sales) P&O to his upmarket Cunard Line, whose flagship is the *QE2*.

Broackes dismisses the idea that he's an asset stripper. But at the same time he foresees no new upturn in the depressed cargo market. "The passenger side of the shipping business is more interesting to us than the cargo side," he says. With P&O's seven-vessel passenger cruise fleet—plus two new Norwegian ships purchased earlier this year—Trafalgar House would control 15% of the \$3 billion free-world passenger cruise market, which has been growing at an average of 10% a year since 1970. Especially attractive to Broackes is the U.S. potential. Americans, he says, take more cruises than any other national group. Yet less than 5% of the U.S. population has ever set

foot on a cruise ship. Even a few points of that percentage would add millions of passengers to what Broackes sees as a high-potential market.

"We have thought of hundreds of ways to make it more interesting for people to travel by ship," adds the managing director of Cunard Line Ltd., Ralph Bahna, who oversees the cruise business from New York. Passengers on the *QE2*, for example, can spend anywhere from \$300 for a two-day cruise around Long Island to \$275,000 to live in the ship's penthouse suite on an 80-day round-the-world voyage. The newest idea is to equip passenger ships with open-air theaters, computer centers, health spas and other forms of landlubber entertainment.



Trafalgar House Chairman Nigel Broackes
Who's an asset stripper?

In the U.K. you don't become a multimillionaire by age 30, as Broackes did, without understanding tax minimization. More ships for Trafalgar means fewer taxes: In Britain taxpayers cannot depreciate buildings for tax purposes, whereas they can depreciate plant and equipment—and a ship qualifies. Broackes says buying P&O, if the merger goes through (it will be reviewed during the next six months by British antitrust authorities), will keep Trafalgar's main corporation tax down to almost nil until 1987 or 1988.—Rosemary Brady

Midas touch

When mandatory retirement forced Richard P. de Camara, 66, to step down a year ago as president of Midas International (1982 sales, \$300 million), he was supervising a worldwide network of 1,670 Midas outlets. The next morning he was back at work, this time running his own Midas muffler repair shop a few miles from his home in suburban Chicago. Since then he has bought two more Chicago-area shops, as well as a Midas franchise in Arizona, in all investing \$640,000 to launch a second career with his original company.

The transition from the executive suite to the trenches wasn't easy. For eight months de Camara ran his first shop himself, working 15-hour days, six days a week. Hired managers now tend the day-to-day chores of running all four shops, but de Camara still devotes 60 hours a week to the business. His wife, Marguerite, buys the office supplies.

What if you chose as a business



"At Union Carbide, an HP computer network automates production management and has paid for itself in less than two years."

Union Carbide's Linde Division in Tonawanda, N.Y., manufactures custom production equipment. Factory systems manager Don Coffman says, "When production demand fluctuates, it complicates our scheduling, product costs, and long range planning.

"To solve these problems we automated production and material management with a network of 1000 and 3000 computers and data capture terminals.

"Because these systems continuously monitor operations and respond in real time, we can identify and eliminate production bottlenecks on line. The payoff? Improved efficiency factory-wide, a dollar savings that covered the cost of our entire HP network in less than two years."



What should you expect from a computer partner?

Quality—from researching customer needs to product development, manufacturing, marketing, after-sales service, and support!

Quality, by HP's definition, encompasses more than the product.

This high quality recently was

recognized by the Union of Japanese Scientists & Engineers, who awarded a coveted Deming Prize to Yokogawa-Hewlett-Packard, HP's joint venture company in Japan.

YHP offers the entire spectrum of HP products and in 1981 accounted for Japanese sales of more than \$200 million. Nearly 60 percent of the products YHP sells are imported from HP manufacturing operations



The Deming Prize: for outstanding merit in the control of quality.

Hewlett-Packard computer partner?



"At Waterman, an HP computer system stimulates a 35 percent internal rate of return."

Waterman is a well known international manufacturer of quality pens and ink. At the St. Herblain plant in France, Chief Executive Officer Francine Gomez says: "We use an HP 3000 computer and HP's manufacturing management software (Materials Management 3000) to control inventory and production management."

"Because the HP system automatically verifies new data and updates existing information, our manufacturing teams are making faster, better informed decisions."

"With the HP 3000 on line to manage process start-up and to automate materials and inventory control, we're working more effectively and have obtained a 35 percent internal rate of return."



US and abroad. Conversely, manufactures and exports its products to HP customers throughout the world.

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tal quality control approach which YHP was awarded the ng Prize is a point of pride throughout HP. Customers in every of the world should expect as a fundamental element in outer partnership with HP.

When performance must be measured by results



**HEWLETT
PACKARD**

Faces Behind the Figures

At the end of his first year in business, sales at de Camara's shops totaled \$1.2 million. How well are they doing? De Camara is anxiously awaiting the word from his accountants. "Having your own money at stake makes all the difference in the world," says the former chief executive. No longer responsible for "the big picture" at Midas, de Camara now concentrates on what he calls "the



Former Midas President Richard P. de Camara
From the executive suite to the trenches.

minutiae of running a small business," right down to worrying that the rest rooms stay clean.

Midas treats him no differently from any other franchisee, he says. He pays the same royalty fee (10% of monthly sales), and his shops are inspected and audited like anyone else's. The company, however, did excuse him from attending the company orientation session usually required for new dealers.

Though de Camara says he may buy more Midas franchises, he won't expand the business as rapidly as he did the first year. "I overdid it," he says. He has other interests he wants to pursue. Among them: Learning to play the organ and wading through a 200-volume set of literary classics. "I haven't had time to read any of them yet," he says. "Maybe that'll come at 75."—Christine Donahue

Fannie steps out

The man who saved the honor of Fannie Mae—that's how some of David Maxwell's sturdiest admirers think of him, and it's hard to disagree. The soft-spoken, precise chairman of the Federal National Mortgage Association has pushed Fannie Mae into issuing Ginnie Mae-like mortgage-backed securities, charged higher fees to the banks from which Fannie Mae buys mortgages and emphasized the purchase of variable-rate mortgages. Those steps lessened Fannie Mae's financial hemorrhaging (*FORBES*, Oct. 26, 1981) while Maxwell waited for interest rates to come down. After two years of big losses, some analysts expect Fannie Mae to earn as much as



Fannie Mae Chairman David Maxwell
Why does Fannie need Europe?

U.S. last year. With a U.S. housing recovery in the works, and the baby-boom generation reaching home-buying age, Maxwell says Fannie Mae must forage the world for additional sources of funds.

But not so fast. The U.S. Treasury Department must approve all Fannie Mae financings. For the past two years Treasury has been dickering over a new tax treaty with the Netherlands Antilles, where virtually all U.S. companies issuing debt to the Euromarket register their finance subsidiaries. The negotiations have stalled: no treaty, no Treasury approval.

Maxwell hopes that bump will get sandpapered soon. He points out that tapping the Europeans for American housing finance could help prevent the problem of Uncle Sam's (and his agencies') crowding corporations out of the U.S. capital market. Good point, especially when you consider that U.S. housing may need around \$1.3 trillion of new funds over the next decade.—Lawrence Minard

Joint mobility

Cellular radio—the new, more flexible form of radio telephone—is expected to generate a cumulative total of over \$2 billion in sales between now and 1988. But it's still a highly fragmented market. Naturally, General Electric would like to grab a major piece of the action. But naturally, too, GE wants to limit its investment. "We had the radio and radio-switching knowhow," says GE's manager for the program, Jack Hurley. "But it

\$2 a share this year.

Impressive though the comeback is, Maxwell is still running hard. Witness his recent whirlwind ten-day tour of seven European capitals intended to find potential investors for Fannie Mae paper. "We think the European capital markets and the U.S. housing market are a natural fit," he said when *FORBES* caught up with him in the well-appointed boardroom of Crédit Suisse First Boston in London.

What about the recent suggestion by at least one Office of Management & Budget official that Fannie Mae should sever its ties to the U.S. government? Congress will do no such thing, says Maxwell, dismissing the idea as a tempest in a teapot. In any case, he says, it had nothing to do with his trip abroad.

Rather, it's a simple question of volume. Fannie Mae helped finance one home sale out of every seven in the

would have taken years to acquire the experience needed in telephone switching." That's the logic, then, behind the deal GE has done with Northern Telecom Inc., which knows a lot about telephone switching.

"It was a fairly short courtship," says NT's manager of the joint effort, Ronald Russell. Both companies had much the same ideas about how things should be done.

Both also had incentives to minimize risk. One of the uncertainties in what is already a highly competitive market (with 13 companies selling the mobile radios) is the degree of price-cutting sure to follow as volume increases. But the biggest uncertainty, Hurley says, is what Western Electric will do. AT&T has not yet said what Western Electric's plans are, but few doubt it will enter the fledgling field.

Both GE and NT agreed that high reliability would be important, and NT's gear is designed to be down no more than two hours in 40 years of service. Built-in fault location for the remainder of the stationary equipment—plus a large existing GE service network for the more vulnerable mobile radio sets themselves—will, the joint venturers hope, offset part of Western Electric's natural advantage in this market.



Union organizer and consultant Ray Rogers
If it worked against J. P. Stevens. . . .

Next!

"I always took the side of the underdog," says Ray Rogers, the union organizer and consultant who made a name for himself running the campaign against J.P. Stevens for the Amalgamated Clothing & Textile Workers Union. "My friends and I were always picked on when we were kids. I took up weight lifting and box-

ten-person consulting firm, Corporate Campaign, Inc. Unlike the Stevens campaign, recognition as such wasn't at issue. The problem was that the United Paperworkers International Union felt its complaints were being ignored. Before Rogers had all his guns blazing, IP agreed to accelerate talks with the Paperworkers.

To win concessions, most unions will strike, picket or sometimes boycott. Rogers tries to drive a wedge of adverse publicity between a company and its lenders, major stockholders and outside board members.

The next major target may be the big Texas-based construction firm Brown & Root, a Halliburton subsidiary. Rogers has been retained by the Texas Building & Construction Trades Council to study a possible Stevens-style campaign against the firm, which proclaims in its advertising that it hires "without regard to union membership."

The muscular, 39-year-old Rogers, a former VISTA volunteer, won't say what Corporate Campaign, Inc. has been paid in the IP or Brown & Root cases. But he says his own salary is only \$425 a week, the same as that of the other nine people in the firm's West Side Manhattan office.

Why Brown & Root? Rogers says the company has taken a "formalized and public" stand against unions. In discussions with union leaders around the country, he says, the company's name often comes up: "It's the J.P. Stevens of the construction industry," he says. He predicts the Texas council will implement his campaign. "They'll make a commitment," he says, "for us to come in."—J.R.D.



Jack Hurley of GE and Ronald Russell of Northern Telecom
But when will Western Electric be heard from?

The benefit of a joint approach, Hurley adds, is that "it takes both companies into the market so that both can find out what is going on"—but at a reduced entry fee. Why not a joint company? That, Hurley and Russell reply in unison, would have added unwanted layers of extra costs.—Howard Banks

ing to protect myself and my friends."

Now Rogers protects the interests of unions. Fresh from his victory at Stevens (its workers were unionized in 1980), Rogers set himself up two years ago to run similar efforts against other companies that resist union organizing or union demands. International Paper was the target in the most recent big case handled by his

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Markets For Today's Investor



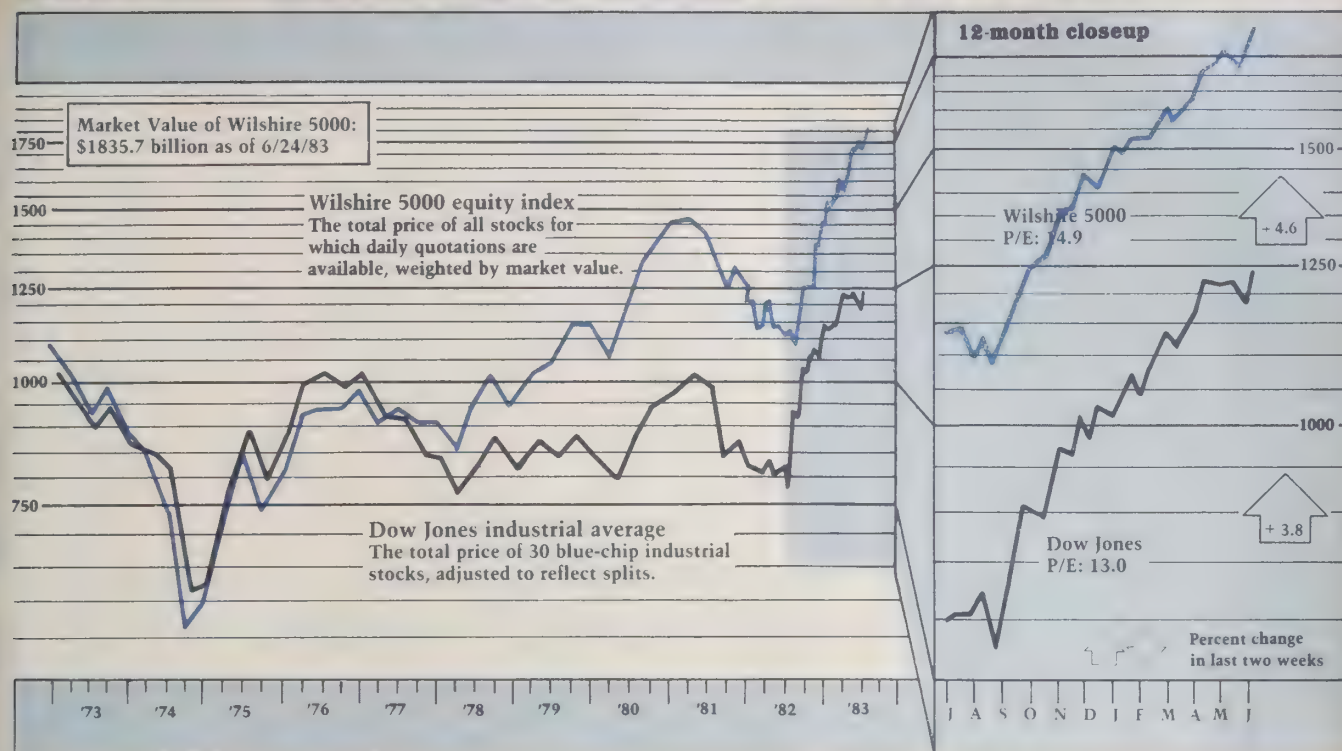
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The Forbes/Wilshire 5000 Review



Breaking more records. All major indicators hit new peaks, then had minor setbacks during the most recent two-week trading period. Nevertheless, the market shows handsome gains for both the two- and four-week stretches. Bargain hunting in the energy sector powered the Amex to a 5.9% two-week advance. In comparison the Dow added a more modest 3.8%, while the NYSE, Forbes 500 and Wilshire 5000 all sported gains of 4.6%. The price-to-earnings multiple on the Wilshire, up 4.9%, rose even faster than the index. Thus corporate earnings are still not rebounding as strongly as stock prices. When second-quarter reports are released, investors will get a

chance to respond to this discrepancy.

The bull market is now approaching its first anniversary, and it has racked up some impressive statistics. According to the Wilshire index, the overall market is up 62.4%, and some \$717 billion in capital has been created over the last 52 weeks. The Dow and Forbes 500 are nearly 55% higher, while Amex and NASDAQ issues are ahead 95.2% and 92.9%, respectively. Last year at this time it was easy to find stocks that were fundamentally underpriced. But with the average issue up more than 60%, and many with substantially greater gains, selection these days is much more difficult.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ¹	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	4.1	3.5	2.1	3.8	6.3	5.4
in last 52 weeks	62.4	54.5	54.6	57.6	95.2	92.9

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	3.6	7.7	9.9	0.7	7.5	5.5	0.8	7.4	8.3	1.4	5.1	6.9
in last 52 weeks	65.6	169.3	169.9	62.2	125.6	167.0	54.6	170.3	177.8	64.5	81.9	161.5

¹Based on sales.

²A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

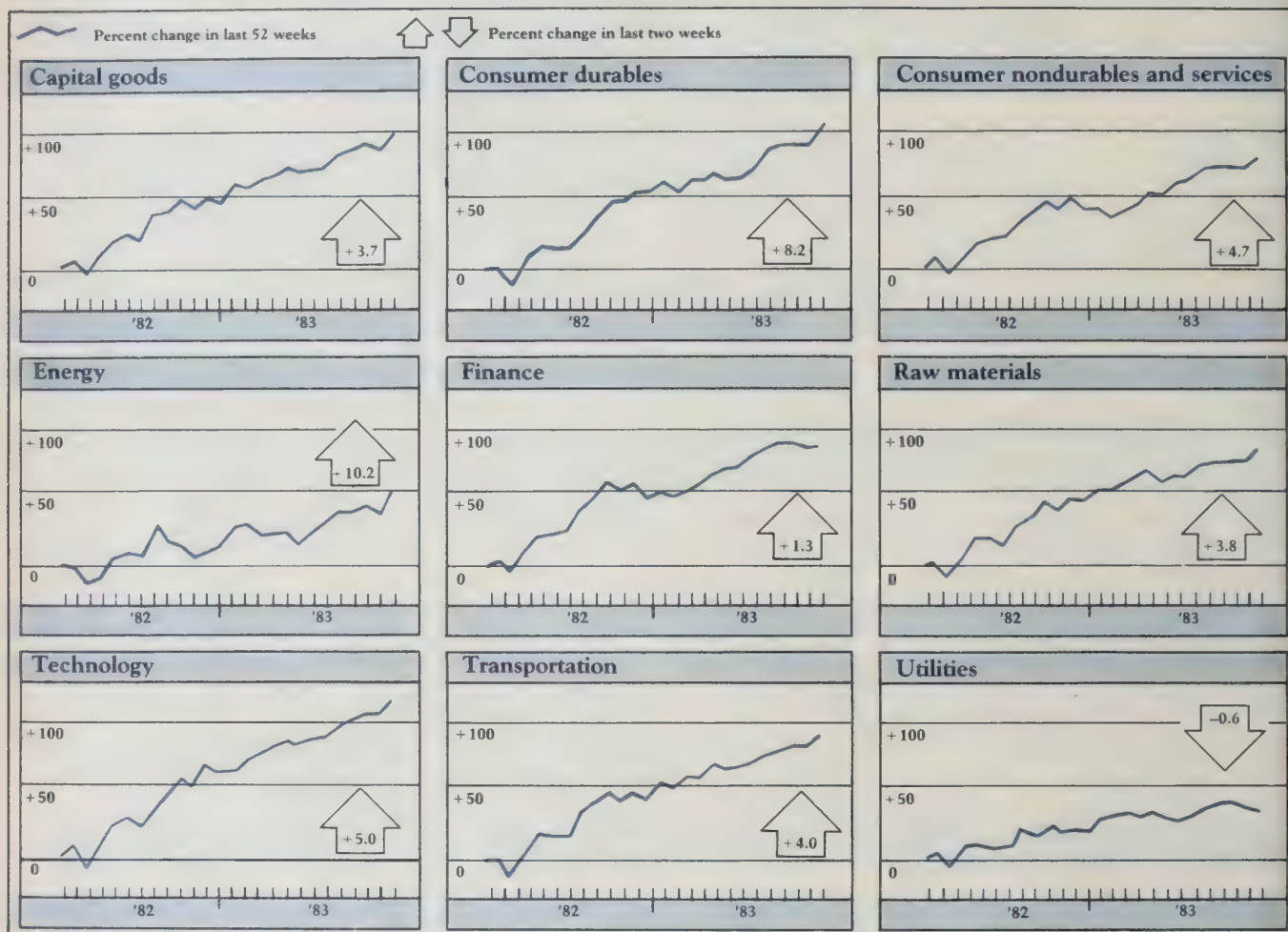
³A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 6/24/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Problem in power alley. Electric utilities, off 0.6%, were the only stocks not shining brightly during the last two weeks. In fact, this group now lags the other eight sectors in 52-week performance, even though utilities led the other groups in rebounding from their bear market bottoms. For the last 52 weeks utilities are up 25.4%, vs. 107.3% for technology shares.

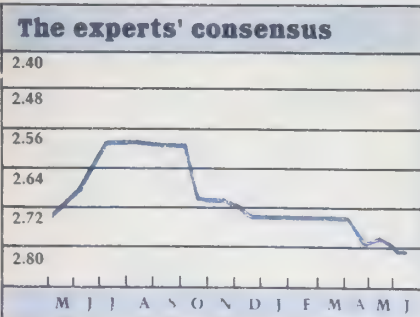
After recent weakness, energy stocks resumed their winning ways. For the two-week period the oil issues led all other sectors with a 10.2% gain. Energy shares are now 32.2% higher than they were one year ago. Consumer durables also did well, with an 8.2% advance. This sector got a lift from Detroit's impressive sales figures, which made investors eager to own auto stocks.



What The Analysts Think

What do they know that we don't? As technology stocks continue to roar ahead, institutional analysts continue to place them near the bottom of their buy/sell recommen-

dations. Meanwhile, the analysts have utility shares at the top of their lists, even though this group has not been keeping pace with the market.



Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite

Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	2.70	1	1
2	Energy	2.74	2	2
3	Finance	2.80	3	6
4	Transportation	2.82	4	7
5	Capital goods	2.83	5	3
6	Raw materials	2.84	6	5
7	Consumer nondurables	2.85	7	8
8	Technology	2.87	8	4
9	Consumer durables	3.06	9	9

rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 6/24/83. Prepared by Wilshire Associates, Santa Monica, Calif



You don't have to be a shrewd investor to understand why financial advertisers purchased more ad pages in *The New Yorker* in the last three years than in any other magazine not devoted to business or financial concerns. Close analysis suggests that such bullish devotion is a matter of good economics; *The New Yorker* is one investment that promises high yields. Yes, *The New Yorker*.

THE NEW YORKER

Statistical Spotlight

The Dow has been on a blistering hot streak since last August, and this market is already headed for the Hall of Fame. Isn't it overpriced yet?

Out of the ball park?

By Paul Bornstein

IT'S A WHOLE NEW ball game," declares Bill LeFevre of Purcell, Graham. "Historically, this market is cheap, even though there are still a lot of doubting Thomases out there who still don't believe—even after the Dow has gone up some 450 points."

Hope or hype? Reasonable forecast? Or wishful thinking?

FORBES took a look at each major market cycle since 1934 from low to high. Recalling the old adage that the market is usually about six months ahead of earnings, we used the 12-month earnings concluding one quarter later than the dates of the market lows and highs.

If the hard-swinging losers like Bethlehem Steel and International Harvester are included, the Dow is selling at around 130 times earnings. This creates a distortion of the P/E not seen since the Depression. But eliminate the unprofitable firms, and the Dow multiple is about 13.

Only last August the Dow sold at 8.3 times earnings, and some investors are having difficulty accepting the present level. But the P/E on the Dow has ranged widely (see table) over the years, from as low as 6.2 to as high as 21.9. The average multiple since 1934 has been around 14.

Generally, P/Es are highest at the top of market cycles and lowest at the bottom. Two notable exceptions:

1934-37 and 1971-73. In the first case the market was recovering from the Depression, and earnings spurted up 206%. Stock prices didn't recover that fast, so the P/E fell from 21.9 to 16.2.

In 1971-73 the P/E fell to 13.6, from 14.1, while earnings rose some 37% after the 1970 recession. But the excitement then was with the glamour growth issues (remember "one-decision" stocks and the Nifty Fifty?) rather than Dow stocks.

In a sense there was just one great bull market that started in postwar 1949 and peaked at 995.2 in 1966. True, there were bear markets—marking the end of the Korean War and the Eisenhower recession, for example—but each bear market bottom was higher than the previous bottom and each bull peak higher than the previous one.

But in the 1970s and early 1980s P/Es slumped to single-digit levels. Investors perceived added risks from inflation, Vietnam, social unrest and the energy crisis. Not to mention higher capital gains taxes. The New York City financial crisis and other revelations of bad judgment eroded confidence. And stock buyers had a harder time evaluating firms because of accounting gimmicks on items such as inventory and pension funding. During this time the Dow traded between 550 and 1000. But LeFevre argues this market ended last August and that the new market is much like the one that started in June 1949.

If he's wrong and the multiples of the 1970s prevail in the 1980s, the few bears left will prove to be vindicated—and in spades.

But what if the bulls have it right? What if inflation, interest rates and investor confidence all trend back to the levels that prevailed for nearly 40 years before the era of stagflation?

Norman Fosback, editor of *Market Logic*, sums up: "Earnings will move sharply higher as the economy recovers, and P/E ratios will continue to expand. Thus there will be a dual upward pressure on stock prices."

So just how high can this market go, anyway? If we use Bill LeFevre's Dow earnings forecast for 1983 of \$90 to \$100 and the average bull market peak P/E of 15.8, the present market could yet move to a range of 1422 to 1580 on this year's earnings. But then there's 1984, which could be better. With low inflation, LeFevre thinks the P/E could go higher than 15.8.

For bears using 1970s multiples, of course, a 100-point or 200-point drop is indicated.

So pray for a return to the good old days. ■

Winning streaks

The strongest of the last 13 bull markets gained 128.7%. Although the current bull market is already

up 60% in less than one year, the DJIA's current P/E of 13 still looks cheap relative to many past cycles.

Market cycle		—Bear market— low		—Bull market— high		DJIA % increase
Low	High	EPS	P/E	EPS	P/E	
7/26/34	3/10/37	\$ 3.91	21.9	\$11.97	16.2	127.3%
3/31/38	9/12/39	7.74	12.8	9.11	17.1	57.6
4/28/42	5/29/46	9.21	10.1	11.56	18.4	128.7
6/13/49	1/5/53	24.66	6.6	26.93	10.9	81.8
9/14/53	4/6/56	27.23	9.4	33.65	15.5	103.9
10/22/57	1/2/60	32.56	12.9	31.26	21.9	63.3
10/25/60	12/13/61	29.53	19.2	34.11	21.5	29.8
6/26/62	2/9/66	35.52	15.1	56.23	17.7	85.7
10/7/66	12/3/68	56.67	13.1	59.34	16.6	32.4
5/26/70	4/28/71	51.83	12.2	53.43	17.8	50.6
11/23/71	1/11/73	56.76	14.1	77.56	13.6	31.8
12/6/74	4/2/76	93.47	6.2	96.72	10.5	75.7
2/28/78	4/2/80	91.37	8.1	123.32	8.3	38.0
8/12/82		93.55*	8.3*	—	—	—

*Projected from those companies in the DJIA that have positive earnings.



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The Mazda RX-7 experience. It is a sports car enthusiast's dream made real.

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It is superb directional control made possible by a finely-tuned suspension system and anti-sway bars fore and aft.

It is a precise recirculating-ball steering gear that keeps you constantly in touch with the road below.

And to make the experience even more enjoyable, the RX-7 is an astonishing value—a sports car enthusiast's dream made affordable.

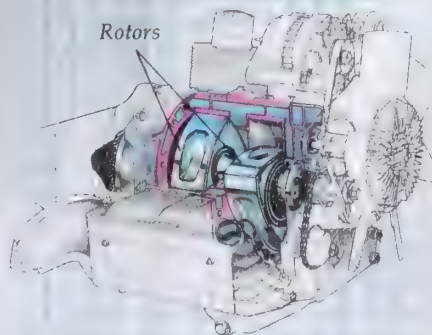
As you might expect of the best-selling two-seat sports car in America, the RX-7 has exceptional resale value. The Kelley Blue Book, March-April 1983,

reports that a 1979 RX-7 S has retained 97.7% of its original sticker price, compared to 74.5% for a 1979 Datsun 280ZX.

If you are partial to the joys of high-performance motoring, all that remains is for you to climb into the RX-7's refined cockpit and head for the open road.

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Because its rotors turn constantly in one direction, the Mazda RX-7's 100-horsepower rotary engine is smoother, more efficient, and more powerful for its size than a conventional piston engine.



Mazda's rotary engine licensed by NSU-WANKEL.

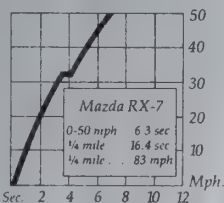
1983 Mazda RX-7 S

\$9895*

Standard features include 5-speed overdrive transmission • Steel-belted radial tires • Power-assisted front disc brakes • Front and rear anti-sway bars • Retractable headlamps • Automatic power antenna • Cut-pile carpeting • Electric rear window defroster • Driver's seat 3-position lumbar support adjustment • Voltmeter, temperature & oil pressure gauges • Two-speed wipers plus intermittent action • Tinted glass • Coolant and engine oil level warning buzzers • Trip odometer • Covered rear stowaway lockers • Side window demisters.

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Son of Delphi



Lewis Korman, managing general partner of Delphi I and II
How many Tootsies can you find in a roll?

By Ellyn Spragins

YOU DON'T EVEN NEED A director's chair or a pair of sunglasses. All it takes for a piece of the movie biz is \$5,000. Hot on the heels of Delphi I, a \$60 million limited partnership put together last year by Merrill Lynch and others to invest in Columbia Pictures' movies, comes Delphi II. And look what can happen: One of the nine movies released so far in the first Delphi deal was *Tootsie*, a top box-office hit that has amassed \$160 million in six months.

Okay, so you can't actually rub shoulders with Dustin Hoffman or Jessica Lange. But you do get a prospectus with glossy color stills from movies about to be released. You get a newsletter every month, and, for more up-to-date information, you have an "800" hotline to dial. Finally, believe it or not, you have a money-back guarantee.

Whether either Delphi partnership will produce enough movie hits to provide partners a return on their investment remains problematical. But there's no doubt that the partnerships themselves have become smasheroos. When Delphi II partnership units went on sale through Merrill Lynch and other big underwriters in April, the offering attracted \$60 million in only six weeks. And the good news for limited partners was not long in coming. Delphi II's first production, as it turned out, was *Blue Thunder* (in which Delphi I partners also have an interest). The film grossed \$30 million in box-office revenues in its first six weeks on the theater circuit.

The movie business has a long and sorry history of treating outsiders' money cavalierly, to put it charitably. One wit, only half jokingly, suggests that the Securities & Exchange Commission require prospective public investors in movies to read David McClintick's finely documented exposé, *Indecent Exposure*, before putting a dime into movies. But Delphi deals, contends Lewis Korman, the managing general partner of both partnerships, are really different. "Our goal was to make the partnership much more than just a single transaction," says Korman, who spent over a year structuring the first Delphi. "Coke"—that is, Coca-Cola, Columbia's parent—"as well as Columbia is committed to making sure that the deal works for an investor because if it doesn't, then the source dries up."

Though Delphi II wasn't touted mainly as a tax shelter, it will provide a deduction of about 70% of a partner's investment in the first year. The

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partnership also offers diversity. It will typically give partners 20% interest in 15 to 20 movies to spread the risk. Nor can those movies be any old B-graders Columbia would like to dump on outsiders. Delphi, while it has the cash in hand, will take part in everything that rolls through Columbia's cameras. Delphi II limits the cut that "the talent"—producers, writers and actors—can take out of Delphi's percentage of a film's revenue. And, at the end of nine years, partners may wind up with a capital gain.

Best of all, Korman persuaded Columbia to agree to make investors whole if the proceeds from Delphi's movies don't do so. "Although we have risk factors all over the place," says Korman, "the transaction has relatively little downside."

Can it be, finally, right out of Movieland, a free lunch?

Nope. Because the partner can be assured of getting all his money back only at the end of seven years, his lost interest, or "opportunity cost," could become quite high. If all the investor gets is his money back, he would do far better in a seven-year bank deposit. "It's great financing for Columbia," says Art Rockwell, a Hollywood

analyst at Crowell, Weedon & Co. in Los Angeles. "What do the investors get? God only knows."

Moreover, to make a profit—not only to return principal—Delphi must wind up with cash left over after its expenses, like any other business. And making a profit for outside investors like a normal business is hardly Hollywood's strong point. "It is very, very difficult for anyone outside of the Hollywood community to make a profit in the film business because there are so many layers of profit that are taken off before you get a payback," says Alan Snyder, an analyst at Siebel Capital Management. "If you've got an extra layer, which is the management company putting together the limited partnership, that just makes it even more difficult to get a final payback."

Another layer that distances the investor from a payback involves movie distribution. Movie distributors usually get between 25% and 30% of rentals—the distributors' cut of box-office receipts—to promote flicks and get them into theaters. But Korman negotiated a lower fee. Delphi II will pay Columbia Pictures only 17.5% to 22.5%. That means Columbia won't

be putting up much for advertising. The Delphi II partners will pay for most of the advertising costs by borrowing another \$40 million on top of its \$60 million original stake over the next few years. Repaying the loans with interest, out of box-office receipts, means additional expense.

Delphi I's success in *Tootsie* doubtless made brave souls out of many individual investors who otherwise would have shied away from any movie deal. The hard fact is that not even *Tootsie* guarantees Delphi I partners a payback yet—and Delphi II so far hasn't produced an equivalent success. The revenues from *Tootsie* are being reinvested in other films, which could become losers.

Korman says that Delphi II will begin to earn a significant return on its money when a movie pulls in over \$25 million at the box office. Unfortunately, only about one in five movies playing last year earned over \$12.5 million in rentals—roughly equivalent to \$25 million at the box office. And a high-cost film, such as Delphi II's *Krull*, which cost an estimated \$27 million, must do much better. Says Art Rockwell: "It's amazing these things still sell." ■

The Funds

T. Rowe Price Growth Stock Fund performed worse than most over the past ten years. Now look for a real comeback.

Timing is everything

By Robert McFough

PROBABLY NOBODY ELSE did so much to make growth stock investment respectable as T. Rowe Price of Baltimore, who founded the T. Rowe Price Growth Stock Fund in 1950. Therein lies a story of the promise and the peril in growth stocks. After years of spectacular performance, the fund began to lag. Now it has earned an unwelcome distinc-

tion: Over the past ten years no sizable (\$100 million and up) mutual fund has performed worse, and still remained in existence, than the Price Growth Stock Fund.

As of Mar. 31, deep into one of the greatest bull markets in history, the fund was up only 43.5% from its share value ten years earlier. By contrast, the Consumer Price Index had risen 126%. Investors who stuck with the fund over the decade would have tak-

en a brutal beating in real terms. Had it not been for the current bull market surge, of course, things would have looked even worse. At year-end the fund's ten-year gain amounted to a mere 17.5%.

As somebody once said, timing is everything, and the growth fund's timing was terrible. Holding the right stocks at the wrong time, it seems, is little better than holding the wrong stocks. "We were continuing to follow what was a successful formula," says Bob Hall, who ran the portfolio from late 1979 to early 1982. "Some of the things that were responsible for its success became problems later. There's a tendency to fall in love with these things and hang on."

Take a look at the fund's 1972 year-end portfolio: stuffed like a Christmas stocking with nifties and glammers such as Xerox, priced at 47 times earnings; McDonald's, at 80 times earnings; and MGIC Investment, at 83 times earnings. The 1973-74 bear market savaged these growth giants.

Growth stocks, in investment theory as well as in practice, are especially vulnerable to inflation. Only by discounting future earnings at low inflation rates can such whopping price/earnings multiples be justified. But



David M. Testa, T. Rowe Price Associates

"Everybody loves you when you're hot. But when you're not. . . ."

inflation raises the discount, shrinking the current value of future profits and impoverishing those buyers of growth stocks at market tops. Nobody waits for promises to be fulfilled when the money markets offer 15% on short-term cash.

The herdish habits of institutional investors hurt, too. "Pension funds all discovered growth stocks at the same time," says Neil Bond, a former T. Rowe Price money manager, who was president of the fund from 1974 to 1978. Their buying binge pushed price/earnings ratios, relative to the ratio of Standard & Poor's 500, sky-high. In 1973-74, born-again institutional bears rushed for the exit, and P/E ratios in the growth stock portfolio shrank by two-thirds. The institu-

tions, moreover, spent years disposing of their growth-stock holdings, unloading at every technical recovery. Good holdings, too: Those in the Price growth fund portfolio averaged earnings gains of 13.6% a year compounded. Yet the portfolio performed miserably. Nobody ever said IBM was a loser, but for most of the past ten years it has been a loser in the market.

Price managers suspected in the early 70s that growth stock values were getting out of line relative to the market in general, but they did not shut off sales of new shares or raise cash to cushion the contraction. The fund invested new shareholders' money in more growth stocks. "If someone gives you money, you're responsible for delivering the product you

promised," says David Testa, chairman of Price's investment policy committee. "We're somewhat fanatical on the issue of product integrity." As a result, the fund took the bear market on the chin.

In 1979, when Price managers turned a bit from standard growth companies to hot oil-service companies, their timing again turned out to be terrible. Prices on such portfolio holdings as Halliburton and Schlumberger collapsed after the price of oil stabilized, then fell, and drilling for new oil stalled. "In retrospect, there was a lot of insanity," Hall says. "It was a painful experience."

"Everybody loves you when you're hot," says Testa. "But when you're not, they're all cold." The fund has done a lot of shifting in its \$1.1 billion portfolio. It is mostly out of energy stocks now and has acquired some medium-size companies for growth potentially greater than the classic giants of the past. Some of the additions are Prime Computer, Federal Express and Tandy. But Price hasn't succumbed to the mania for shares in companies with small capitalization.

That may be good news for Price growth fund shareholders. The fund, at least over the current bull market, has measured up to index averages, and that's a turnaround signal. In fact, Price's performance since Mar. 31 has improved strikingly, and by the end of the second quarter it may well have lost its distinction as the worst-performing big fund of the last ten years. Smaller capitalization stocks have outperformed the fund, but with P/E valuations 2.1 times higher than that of the S&P's 500, small company funds such as Price's New Horizon Fund may be getting overvalued. The now big, steadily growing companies represented in the growth-stock fund, on the other hand, sell at a premium of only 30% or so over the S&P's 500 P/E. If inflation has truly cooled, the market will once again recognize the value of their expanding future earnings, or so goes the tune at T. Rowe Price. Moreover, for the next ten years, the phenomenon of regression to the mean may work in the growth fund's favor: In fund performance, regression to the mean describes the tendency of one decade's superior performers to become the next decade's laggards, and vice versa. Should the growth fund portfolio catch fire again—as, indeed, it's certain to do if the bull market continues—Testa will have to consider how to conserve his gains. With a nervous laugh, he says, "That's a problem I'd love to face." ■

You thought no-load meant no sales charge? You had better think again.

Getting while the getting is good

By Barbara Rudolph

WHY PAY FOR SOMETHING when you can get it for free? That, in a nutshell, is the traditional argument for buying no-load mutual funds. Typically, they eliminate the industry's standard 8.5% sales charge. This saves money for shareholders, especially since investment performance bears little relationship to fund acquisition costs.

Times have been tough in the fund business, and the no-load share of annual equity fund sales rose from 16% in 1970 to nearly 35% today. But now, with the demand for funds once again brisk, load charges and other fees are growing more popular. It's a seller's market, fund managers reason, so why give away what you can get paid for?

Much of the change is coming in the form of new products the industry calls low-load mutual funds. Until recently funds either charged a full 8.5% load or no load at all. But now some are assessing 2% or 3% fees on initial investments, with similar charges on withdrawals. In June, for example, Fidelity started charging a 2% load for its six Select Portfolios, along with a 1% redemption fee. The management company already puts a 3% load on hot Magellan and Mercury growth funds. Competitors, meanwhile, are offering ever lower loads. Among the cheapest is the Twentieth Century Ultra Fund, which avoids brokers but charges 0.5% to join and another 0.5% for withdrawals.

This trend began last year when Hutton instituted the no-load redemption fees. Shareholders

four funds pay up to 5% if they redeem within one year and as little as 1% if they redeem after five years. "Redemption fees are irrelevant to long-term investors," says Hutton's First Vice President Thomas McNerney. "But they tend to keep out short-term money."

Where is all this fee income going? Fund managers can pretty much use it



as they please. At firms like Hutton, the money helps feed a hungry sales force. For no-load managers who don't use brokers the charges are almost pure gravy. That's the case, for example, at Fidelity Select.

No-load fund managers who are squeamish about imposing fees outright have another option. They can set up so-called 12B-1 plans, authorized by the SEC in 1980. These were created to boost sales by allowing brokers to receive commissions when

they move customers' balances into mutual fund accounts. The money comes from allocating a small percentage of fund assets to cover sales and marketing costs. This is comparable to a load charge of the same amount.

Most 12B-1 plans limit the percentage of fund assets to be used for marketing to 1%. "But the ruling doesn't set that forth in so many words," says Gerald Osheroff, associate director of the SEC's Division of Investment Management. Keystone, for example, exceeds the 1% threshold.

Existing funds need shareholder approval before dipping into assets to compensate marketers. Merrill Lynch's money fund managers are seeking that now. Ivy Fund, Transatlantic Fund and Vanguard Fund, on the other hand, are equity funds that already use the plans, even though they bill themselves as no-loads. Many new funds are quietly tucking 12B-1 provisions into prospectuses.

These days fund managers cite a new reason for imposing load charges. They may ward off market timers, who often view no-load funds as perfect vehicles for frequent shifting among various types of investments (FORBES, July 4). When too many people make similar moves at the same time, a fund may be forced to raise cash at inopportune moments. This could penalize shareholders.

Not every mutual fund manager is eager to raise fees. Dallas-based Charter Fund, for example, went no-load in April. It had a fee structure that reduced sales charges on larger investments, which turned off many stockbrokers. The \$77 million Century Shares Trust of Boston also decided to go no-load last year. Last December Dreyfus Corp.'s flagship Dreyfus Fund joined the no-load ranks, possibly in an effort to stem its tide of net redemptions.

Now that investors have alternatives to full-load funds, they may resist paying conventional 8.5% sales charges when the bull market ends. On the other hand, fees may start coming down even if the market doesn't. "Fund managers may soon find themselves across the table from some institutional client who will say, 'We've got \$100 million here; we want your management fee lowered,'" predicts Fred Newcomb of Aim Financial, a company that sells software to the fund industry.

That kind of aggressive price shopping ought to help all shareholders. ■

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June 23, 1983

In this ingenious form of debt financing, the rule to remember is: Take the debt and let the warrants go.

HOW TO USE USABLES

By Ben Weberman



"Usable bonds" are a little-known variety of subordinated debentures that benefit from rising stock prices but, unlike convertibles, do not require the bondholder to play the equities markets. So far, they have been issued by a relatively small number of companies, usually to sweeten a debt financing.

Here's how usables work: The is-

That's why they're called usable bonds. The debentures carry maturities of 10 to 20 years, while the warrants usually expire in about 5 years. The two split apart after issue and trade separately in the secondary market.

What happens when investors who bought the warrants decide to exercise them? They could, of course, ignore the bonds and simply pay cash for the stock. But most warrant holders don't do this; they go looking for debentures to match up with warrants. Why? Because almost all usable bonds are now selling at a discount; many, in fact, were issued below par. So for the warrant holders, buying the debentures at 75 cents or 80 cents on the dollar and exchanging them at face

They warrant attention

You don't have to play the stock market to benefit from it. Usable bonds selling at a discount from par can be used to reduce stock purchase cost when the warrants that are issued with them are exercised—the "effective exercise price" below. The debentures, therefore, can appreciate because of demand by the warrant holders.

Issue	Recent price	Current yield	Warrant exercise price	Effective exercise price	Recent price of common
Charter Co 10% of 1998	75½	14.1%	\$10.00	\$ 7.55	11½
FMI Financial 9s of 1993	78	11.5	11.38	8.88	10¾
MDC 7s of 1993	71	9.9	18.00	12.78	18½
Trans World Corp 10s of 1999	84	11.9	31.00	26.04	33

suer sells units, each made up of a debenture and a detachable stock purchase warrant. Through exercise of the warrants, the debentures can be used at face value in lieu of cash to pay for the company's stock at the price specified on the warrant.

Ben Weberman is economics editor of FORBES magazine.

value for stock beats paying cash.

The result is that as the warrants' expiration date draws near, demand for the debentures forces their price up.

So what's the best way to play all this? Buy the debentures and ignore the warrants, says Larry Post, fixed-income analyst with the Los Angeles high-yield bond department of

Drexel Burnham Lambert. Holding both is the equivalent of a convertible; to an extent, you're playing the market. If you buy the warrants only, it's a straight stock market play. But if you buy only the debenture—and buy carefully—you have a standard fixed-income investment, often with a generous yield, which may ultimately benefit as well from upward movement in the stock.

Take, for example, Loews Inc. 6% of 1993. The issue included warrants expiring Nov. 29, 1980 and exchangeable for stock in Loews. As warrant holders started buying up the debentures in early 1980, the price rose from 72 to 75. Once the warrants expired, the debentures fell by almost 3 points.

Another example is Charter Co. 10% of 1998, which increased 6 points in price in 1979, while Charter stock was hot. That was high enough to drop rates of return by as much as 0.9% under the rest of the high-yield market.

The table on this page lists the four usable bond issues Post considers most attractive. Yields range from 10% to 14% and effective exercise prices are well below the recent market price of the common. They are, in the vernacular of the trade, "in the money." In each case, the warrants expire in no more than five years.

In addition to those four, Post also likes Electronic Memories 10.7s of 1993, McDermott 10s of 2003, NCNB 7¾s of 2002, Pan Am 13½s of 2003 and Petro-Lewis 11½s of 1993. The NCNB debentures, in fact, might have been attractive to buy and hold had not the company, unwilling to see its low-cost debt extinguished, acted to forestall conversion recently by repurchasing 1.5 million of its 2.34 million warrants outstanding. Result: The debentures' price dropped 8 points.

For this reason, Post warns, it's important to buy the debt issue as close as possible to intrinsic value, determined by standard fixed-income criteria such as credit quality, coupon and maturity—just in case the company severs the link between warrants and debt. Too, make sure the debenture is selling at a substantial discount from par, that it is available only in small amounts, and that you get in well ahead of the warrant's expiration date—before the debenture is in demand. ■

While I think it's best to be picky, picky, picky with today's market, there are ways to take advantage of its present vigor.

BLIPS, DIPS AND BUYS

By Ann C. Brown



Over the past few weeks there has been enough unfavorable news to let a lot of hot air out of the averages, yet they continue to soar like one of Malcolm Forbes' multicolored balloons. Neither rising interest rates nor deadly digit money supply figures nor a Texas Instrument-size high-tech earnings disappointment has been able to do much other than temporarily stun the stock market.

What caused the market's unexpected vigor in the waning weeks of June probably can be summed up in three little words: panicky money managers. All during the second quarter the overseers of many of the nation's great hoards of investable funds loudly predicted and impatiently awaited the market's comeuppance. When the market failed to tank, visions of too much cash on their client account reports caused these institutional pragmatists to pour their rainy-day reserves into the big capitalization money blotters, including, would you believe, the oils.

Exxon, Mobil, IBM, Sears, AT&T, Johnson & Johnson and other havens for stashing huge amounts of cash in a hurry were prominent on the most-active and, occasionally, new-high lists. Missing only was

Eastman Kodak (the DJI Nonperformer of the Year), which was being summarily dumped by camera-shy fund managers who hate having their pictures taken with a loser. And all the while the big stocks were going right for the wrong reason. Small investors mistook this activity for strength and continued to snap up low-quality, low-priced securities, boosting the "under-the-counter" averages as well.

As you may have gathered, I do not think the recent rise is the start of the fifth or sixth or whatever leg it is of the current bull market. Rather, I see the latest buying flurry as a big blip, which could blop in a hurry when the institutional buying prop stops or the money supply fails to shrivel on cue or the second-quarter corporate earnings don't show their largely overdiscounted increases. A year ago you could have bought just about any stock and had a double or a triple. Today it may pay to be picky, picky, picky when it comes to buying what someone else, possibly smarter than you, may be selling.

Just because there are any number of banana peels the stock market could slip on over the near term doesn't mean there aren't a bunch of stocks worth buying at 10% to 15% beneath their present prices. One way to try to do this is to sell puts on the stocks you would like to own, assuming puts are available. When you sell a put, you are in effect contracting for a specified period of time to buy a stock at a specific price. Since this may be new and a bit confusing to some investors, perhaps the following brief example can be helpful.

Let's imagine that you are seriously thinking about owning stock in the aforementioned battered and beleaguered Eastman Kodak (70). You

have carefully researched the situation and have concluded that, while things are bad for Kodak, they aren't all that bad, and the stock at this level appears fairly well sold out. Instead of buying 100 shares of EK at the market and paying \$7,000 plus commissions, you might consider trying to buy it on the cheap by selling an Eastman Kodak January 70 put at, say, 4½. (The price of the put can vary widely, and there may be other more attractive series and strike prices at any particular time.)

When you sell a put, your account is promptly credited with the proceeds from the sale—in this case \$450 less commissions. You have now entered into a contractual obligation to buy 100 shares of Eastman Kodak at a price not to exceed \$70 per share if the stock is "put to you" anytime before the third Friday in January. If the price of EK stays above 70, it is very unlikely the stock will be put to you since you can immediately turn around and sell it at a profit. However, if the stock price falls below 70 any time during the option contract period, a put buyer has the right to demand that you purchase 100 shares of EK at \$70 per share.

Whether the price of Eastman Kodak has fallen to 68 or 62½ or whatever when the stock is put to you, your cost remains a constant 65½ per share (\$7,000 you paid for the put stock minus the \$450 you were paid for the put divided by 100). At 68 you will be \$250 ahead on your put transaction. At 62½ you will be down \$300. However, in both instances you will be better off than if you had bought the stock at 70, since you were able to obtain it at a lower net cost.

Investors who sell puts in an attempt to buy a stock cheaper should be prepared not to own the stock immediately, or at all in the event the stock is never put to them. Therefore, it could be wise to make a list of several fundamentally attractive stocks on which to consider selling puts. At the moment, even though I remain supercautious regarding the market in general, my own list of possible candidates for put-selling includes: Citicorp (40), Black & Decker (22), Gillette (45), Tandy (50), Chase Manhattan (53), Syntex (50), Wang Laboratories (37) and Waste Management (56). ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio management firm of A.C. Brown & Associates.

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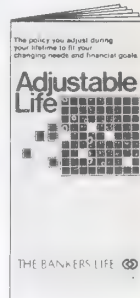
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The Contrarian

Invest in financial futures? Three-card monte gives you almost the same odds.

QUICK KILL OR BLACK DEATH?

By David Dreman



"If you are convinced markets are moving higher, why not play financial futures? If you are right, the leverage is dynamite." I hear this, or something like it, frequently these days. My invariable reply is, "Stay away. Far away." No question, leverage is great on the upside, but more often than not it will prove a two-edged sword that destroys a good portion of your capital.

You have probably seen those full-page ads showing smartly dressed ultrasophisticates smiling knowingly as they chat about financial futures, presumably making big bucks in the process. What the ads don't tell you is that many investors are lured in because the margin requirements on these contracts are minuscule relative to the swings in the stock or bond markets themselves. The margins are so low, in fact, even the most minor correction—a mere hiccup in the market—can wipe out 100% of your capital. Three-card monte gives you almost the same odds.

Because of the low margins, investors can be dead right on their market calls and still blow it. To see just how easy this is, consider the mechanics of the Value Line futures contract. The contract is based on

the Value Line index of 1,700 of the largest publicly traded stocks (weighted equally), the first stock market futures contract to trade. Currently, the average is priced at 200. Each point upward results in a \$500 profit per contract; each point downward, a \$500 loss. The average brokerage firm requires 6 points per contract, or \$3,000 of margin. Since the current value of the contract is \$100,000 (200 points x \$500 a point), the initial margin requirement is only 6% of the actual contract. To make it even easier to play, an investor can put up Treasury bills as margin in lieu of cash. By comparison, even in 1929—when margin speculation was off the wall—a 10% margin was required on stocks, approximately 66% more ante than is required to play stock futures today.

Since the 6% must always be maintained, the slightest correction forces an investor to cough up fresh cash or be sold out. As an example of what that can mean, look at the Value Line futures in early May 1982. At this point the market was badly undervalued, with the Dow trading at 830 or, adjusted for inflation, near levels that it hadn't sunk to since the bottom of the Great Depression. If an investor had purchased a 1983 June Value Line futures contract back then, the price would have been 130. This was a premium of only one point over the actual value of the contract at that time (129).

Strategically, it was a good move. The investor bought into a superdepressed market, got an option to go out a full year and paid almost no premium for the privilege. Tactically, it was an unmitigated disaster. From May to mid-August 1982 the Value Line index dropped 15 points, or 11%. Pessimism in early August

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MONEY & INVESTMENTS

was so great that the futures dropped even more, 18 points in all, and traded at a 3-point discount to the Value Line average itself.

Translated to the bottom line, if an investor had bought five contracts, putting \$6,000 down per contract (\$30,000 in all), and if he had the stomach to hold the contracts all the way down, he would have had a loss of \$45,000. To cover this loss, additional margin calls were required, totaling 1½ times his original investment. At the bottom, his cash outlay, including the required margin, was \$75,000. It's unlikely that one in a hundred investors rode this out. Those who did—undoubtedly scared to death by the crash dive—probably sold out at a loss or, at best, broke even in the first six weeks of the rally. Although the speculator was right on one of the major bull moves in decades, he would have been heavily in the red because his timing was off by only three months.

The same low margins have also wiped out scores of investors in long-term bonds. Many interest-rate speculators believed long-term rates on government bonds had peaked in May 1981, at approximately 12½%, rather than a year later, at 14½%. What a difference that year made. The mistake cost the early birds 10 to 12 points, or 3 or 4 times the margin they initially put up—if they weren't mercifully wiped out previously by a margin call. Low margins once again proved a form of black death to speculative capital.

So unless you do sophisticated hedging against your portfolio, it would be best to remember that financial futures have a place only in the portfolios of masochists and the most wild-eyed dice players.

Forget quick kills. The odds are you will be on the receiving end. Rather, buy good stocks that aren't crowd favorites today. Though you won't have the excitement (or terror) of futures, it's exponentially safer and probably also likely to be exponentially more rewarding.

Three stocks in this category:

Ohio Casualty (53) trades at a P/E of 9 and yields 4.8%.

Reynolds Industries (50) has a P/E of 7 and yields 5.9%.

Texaco (35) yields 7.9% and has a price/earnings ratio of 7. ■

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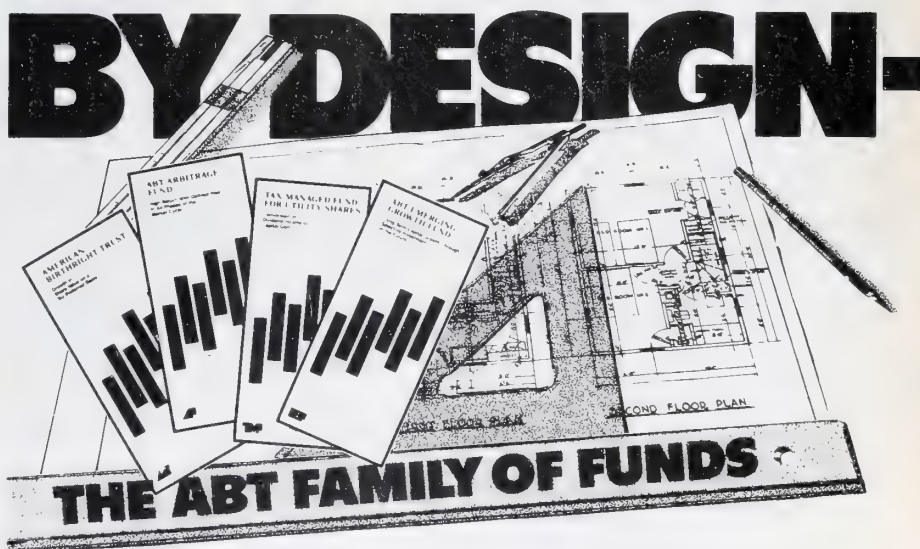
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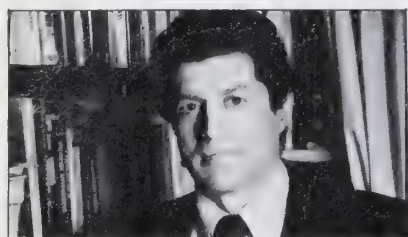
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F 7/18/83

Texas Instruments' current troubles have affected different groups of investors very differently, depending on their ages.

SPILLOVER EFFECTS

By **Srully Blotnick**



Can the action of one stock change the attitude of investors toward all issues in its group? It can, indeed, when the company is the size of Texas Instruments and the group is the high-tech issues.

Spillover effects from any sudden setbacks are inevitable. What is noteworthy about TI's recent fall from grace—a 50-point loss in two days, nearly one-third of its market value, following news of an impending \$100 million aftertax loss for the second quarter—is that investors of different ages have reacted to it in markedly different ways.

Older investors are disturbed precisely because of TI's size. A measure of stability is supposed to be present almost as a matter of course, in their view, once a firm reaches the proportions of a TI. Said a 55-year-old attorney: "If it could happen to a \$5 billion company, it could happen to any company in this field." Said a 61-year-old building-supplies wholesaler: "I keep thinking about what the outcome would have been if TI had less financial strength. A smaller outfit in this kind of a bind might have had no choice but to declare bankruptcy." Both are current TI shareholders.

*Dr. Srully Blotnick is a research psychologist and author of *Getting Rich Your Own Way* and *Winning: The Psychology of Successful Investing*.*

It should be mentioned that older investors in my sample have always found the shares of high-technology firms, with the exception of IBM, less appealing than do younger investors. That bias rests largely on the fact that investors in the 21-to-39 age range are significantly more likely to see high-tech companies as a source of both stock market profits and potential employment. The reactions of the attorney and wholesaler quoted above were, therefore, representative of investors their age. Cautious before, they report themselves wary now of even the best high-tech issues, and soured on most of them. As the attorney put it: "Somebody is going to make money in this field, someone who's in charge of his own destiny—which big companies usually are. Maybe that leaves IBM as the only stock in the group worth buying."

Younger investors disagree. In TI's setback they see an opportunity that smaller companies can—and should—quickly exploit. A commonly heard comment, this one from a 34-year-old engineer who works for a television network: "Big companies have plenty of trouble just getting out of their own way. I'm surprised things like this don't happen more often. Little computer and electronics companies are the place to be."

TI's current difficulties are, therefore, producing a conspicuous split in the ranks of individual investors. Well-meaning people, in consequence, are giving their friends advice that is distorted in predictable ways. For instance, ask investors over the age of 50 what is happening to the public's enthusiasm for technology stocks. The majority will tell you that it is waning. But that's not true. What we now know is that they are basing that judgment on

their own heightened uneasiness about these issues.

Paradoxically, the appetite of younger investors for this group of stocks has, if anything, grown in recent weeks. For years it has troubled them that some companies in the field, particularly the larger ones, seem to have an assured existence not because of their stream of breakthroughs or quality products but because of the firms' financial clout. They keep referring to these companies as "marketing" concerns, and, make no mistake about it, they do not mean it as a compliment. The more sophisticated investors in my sample, for instance, find IBM's Personal Computer technologically underwhelming. A typical comment: "Coming from anyone else but Big Blue, the unit would not have gotten so many stories written about—and software written for—it. Its success is due mainly to good marketing."

Hence, they see TI's setback as a marketing failure. In their view, a fascinating one, a technology company should either be small and highly innovative or large and, therefore, expert at manufacturing, distributing, promoting and selling its less-than-state-of-the-art products, which is how they see IBM. As far as they are concerned, TI was trying to straddle these two, very different, worlds, and fell into the abyss that separates them.

One more paradox. Far from writing TI off, many of the younger investors in my sample expect it to learn from its mistakes and come roaring back. They hasten to point out that the company had similar difficulties a few years ago: Earnings plunged from \$9.22 a share in 1980 to \$4.62 in 1981, which caused the stock to plunge as well, from a then-record \$150 to \$75. Subsequently, it rocketed right past its old high to over \$175 . . . before the bad news hit. In time, they expect that to happen again.

Even so, the effects of TI's fall from grace will linger, primarily in terms of greater volatility for technology stocks. Younger investors looking for quick profits still regard the high-tech group as a good bet. But they are ready to pull out faster, now that they have seen what can happen, even to the biggest players, when things go wrong. ■

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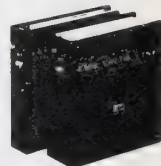
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Though far from a sure thing, the wheat versus corn spread described below has only infrequently disappointed traders.

AGAINST THE GRAIN

By Stanley W. Angrist



Spread traders, like folks who follow the ponies, have their favorites. One trade that is tracked by most spreaders year in and year out is long December wheat/short December corn. The rationale behind the spread is simple. Both corn and wheat prices have a tendency to decline during their harvest periods. The spread is put on during or just after the winter wheat harvest, normally in late spring or early summer, and it is lifted just after the corn harvest the following fall, in early November. So the wheat side of the trade is being bought when wheat should be near its seasonal low, and the short corn side of the trade is being covered when it should be near its seasonal low. By the time the trade is lifted, wheat should have recovered from its harvest glut and its prices should be on the rise.

The table gives the statistics for the spread since 1968. The data can be a bit misleading as presented. I think it is more realistic if the largest gain of \$1.24 per bushel (made in 1973) and the largest loss of 90.98 cents (in 1976) are both thrown out. With those extremes aside, the average gain over 11 years becomes 32 cents, while the average loss for two years is only 8 cents.

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

Recently wheat has been in a blue funk, primarily because the crop looks so good. Above-normal rainfall in May, accompanied by below-normal temperatures, created an estimated yield of more than 40 bushels per acre, compared with last year's 36.1 bushels. On the corn side, there has been good commercial interest in owning futures contracts for the current crop year as well as corn for immediate delivery. However, we are planning to use December corn in our spread, which is a contract from the next crop year. Even though plantings fell behind normal levels and cool temperatures inhibited plant growth, demand will be on the slack side. Stocks are huge, and it looks as though the best market for new crop corn will be the government loan program. I see no reason, under present conditions, for the spread not to follow its usual seasonal tendencies.

Given that history, and these fundamentals, I would try to buy De-

Vive la différence!

The December wheat versus December corn spread is usually put on in late spring and taken off in mid-fall. If a trader had placed the spread at the average price for late spring and lifted it in fall, he would have had a profit in 12 of the last 15 years.

Contract	Week ended June 3	Week ended Nov 11	Potential gain/(loss)
1968	27.47	16.41	(11.06)
1969	11.69	19.42	7.73
1970	19.69	27.70	8.01
1971	15.44	48.07	32.63
1972	25.56	89.63	64.07
1973	88.75	212.90	124.15
1974	128.35	134.50	6.15
1975	77.95	95.40	17.45
1976	111.13	20.15	(90.98)
1977	9.03	48.00	38.97
1978	69.50	130.63	61.13
1979	106.75	157.85	51.10
1980	140.75	145.95	5.20
1981	91.15	151.70	60.55
1982	104.63	99.10	(5.53)

Prices are cents per bushel.

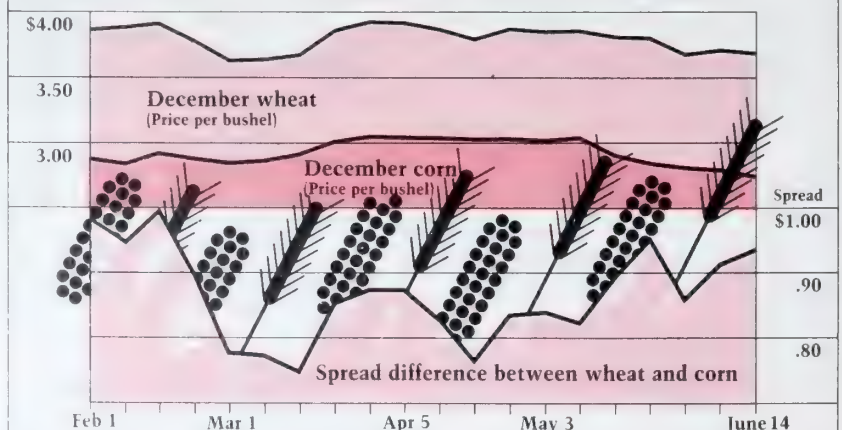
Source: Shearson/American Express

cember wheat/sell December corn, with the wheat at no more than 95 cents over the corn. I would look for a 30-cent (\$1,500 per spread) profit, risking no more than 10 cents (\$500 per spread) from my entry point. The margin on this trade should be the margin required on the wheat side, or about \$750. The round-turn commission on the total spread—the sum required on both trades—is about \$120. ■

The wheat premium

This year the premium that wheat has commanded over corn has varied between about 75 cents and \$1.

This difference, history says, should widen between now and the end of the corn harvest.



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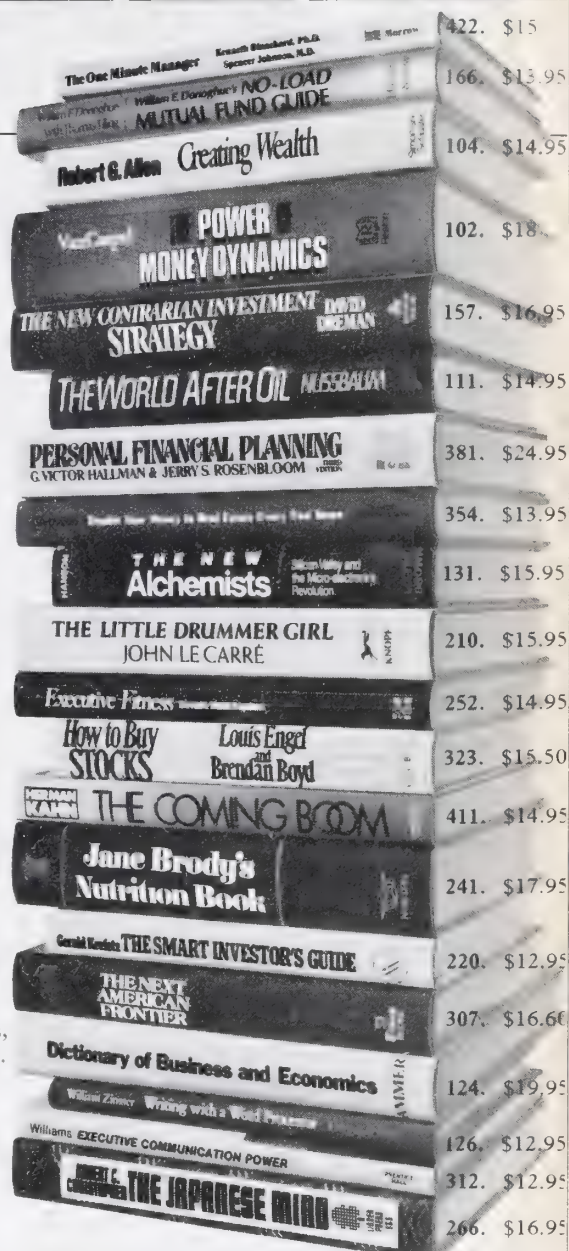
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Everyone makes the assumption that it's always the public that gets fleeced when hot new stock issues hit the market. The facts show something quite different.

GOING PUBLIC

By Thomas P. Murphy



This is a mystery story. We are in the midst of the biggest boom in the history of initial public offerings—companies selling stock publicly for the first time. But the offers are not very public. Individual investors are not getting much of the stock. In fact, almost none of it.

Let's quantify things. It adds up to the "elephant-in-a-phone-booth" suspense. *Going Public*, a Philadelphia-based publication, figures that through May 1981, the previous record-breaking year for initial public offerings, there were 102 of them. They raised \$1.4 billion. Through May of this year, you can more than double those numbers: 210 IPOs raised \$3.08 billion.

That is pretty heady stuff. You would guess, as in past bull markets, that the poor, dumb public was in there frantically bidding for this or that high-tech wonder.

It wasn't. In fact, the public rarely gets a chance to buy initial public offerings of the good venture capital-backed companies that are coming into the public market. Junk stocks, penny stocks—the normal flotsam of any bull market—are, of course, available. As always. But the serious companies just aren't available to the public at the offering price.

Why not? Where is all this stock

going? After all, we are talking about large numbers. At the current pace, \$6 billion to \$7 billion may be raised this year in IPOs alone.

Let's trace the cycle of how companies sell stock for the first time. Typically, they, or their venture capitalist investors, approach several underwriters for a discussion about the company and its prospects. If the company is high technology, or very fast growth, they are likely to want to see one or more of the quartet with the special cachet needed in these fields: Hambrecht & Quist or Robertson, Colman, Stephens & Woodman in San Francisco; L.F. Rothschild, Unterberg Towbin in New York; and Alex. Brown & Sons in Baltimore.

The trouble is that everybody has the same brilliant idea. While these hot underwriters are swamped with attractive underwriting business, the big retail firms—the wire houses, to use Wall Street parlance—simply don't see many hot deals. If you cut your teeth on Silicon Valley, you probably have never heard of Roger E. Birk, who runs Merrill Lynch. But Bill Hambrecht and his company, Hambrecht & Quist, now those are names with cachet. In Silicon Valley every entrepreneur wants to talk to Bill Hambrecht. In the East it's Tommy Unterberg of L.F. Rothschild, Unterberg Towbin.

That may be clue one, then, to why the Great Boom in new issues has bypassed the public stock buyer. The Hambrecht & Quists of this world aren't major retailers. Their forte is placing stock with institutional investors.

So that's part of the answer: The big retail brokerage firms see little hot stock in the first place. And, what little they manage to get located is dispensed by eyedropper to

their retail offices. How do you divide 25 shares of a hot stock among 30 customers' reps? You put everybody's name in a hat, that's how. It has been a ritual in brokerage offices over the past year.

Why, though, the pressure to buy IPOs in the first place? Are the selling companies and their brokers so guileless that the issues are grossly underpriced?

No, of course not. But there is that time-honored "baker's dozen" (you pay for 12 and get 13) thinking in Wall Street. It's called leaving something on the table, and in an initial public offering underwritten by a good house typically the goal is a price increase of 10% to 20% after the stock is issued—that's what is left on the table. It gives the underwriter a cushion in case he miscalculated demand, and it gives the company a start in public life with happy shareholders.

Making a 10% to 20% profit is not a bad day's work, and a hot issue can do even better. So you have one reason that the public sees so little of the good stuff. I will offer you a second reason. A newsletter that follows this market—*New Issues*, published out of Ft. Lauderdale, Fla.—has a record that also helps explain the intense interest IPOs are getting. Last year *New Issues* made 19 buy recommendations, and 18 of them are up. Overall the gain is 120%. This year the newsletter is coming on even stronger. So far it has had 17 buy recommendations, and 16 of them are up. The average holding period is three months; the gain is 73%. Selective buying of IPOs has been very lucrative.

All of this takes us not to where the stock isn't, but to where it is. Institutional buyers get the lion's share (and the lamb's share, too). Some are the go-go type hedge funds, "the high beta boys" as they say on The Street. Others are the new funds, Merrill Lynch's huge Sci Tech Fund, for instance, with \$800 million to invest. The institutions are the ones absorbing these IPOs. The pricing doesn't seem to scare them, they are big buyers, and they tend to hold on once they have bought.

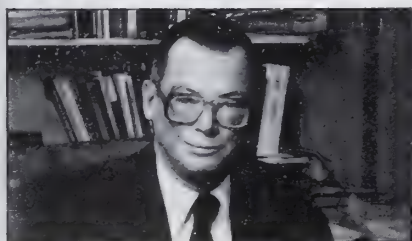
It is a big elephant, this 1983 IPO market. It's also a big new phone booth. ■

Thomas P. Murphy heads a venture capital firm, Partnership Dankist, Stamford, Conn.

The basic trend of interest rates is still up, and when the markets collide with that fact, the crash is likely to be resounding.

EUPHORIA RUNS AMOK

By Ashby Bladen



The most important thing for investors to understand today is that the financial markets are on a collision course with reality. They are increasing rapidly on the assumption that last fall we won a famous victory over inflation and so the fundamental direction of interest rates is now down. Unfortunately, the truth is that we *lost* the battle against inflation, for the fourth time in 16 years. And the basic trend of interest rates is still up, as it has been for more than one-third of a century. Markets have a life of their own, and they can ignore reality indefinitely. But they cannot ignore it forever, and the collision, whenever it comes, is likely to be explosive.

During an inflation, debts, incomes and current-dollar GNP all grow at about the same rate, but the burden of *debt service charges* rises considerably faster than the incomes from which they have to be paid. It is not the debts themselves but the growing difficulty of repaying them that causes financial trouble. And there are two reasons inflation pushes up debt service charges faster than incomes.

First, as the inflation worsens, lenders demand higher interest

rates to compensate themselves for the declining real value of their principal. Second, the length of time for which they are willing to make loans grows steadily shorter because the rising level of interest rates causes losses in the market value of long-term loans while the inflation reduces their real value even more. Thus, higher interest rates and faster principal paybacks take a bigger piece out of debtors' incomes, even though the debts themselves are not rising faster than nominal incomes.

The effect of 20 years of accelerating inflation has been to shorten dramatically the period for which lenders are willing to make loans. But the time in which the productive assets that those loans finance pay for themselves, by increasing the efficiency of human efforts, has not shrunk correspondingly. Before the inflation became serious, institutional investors, like the life insurance company I work for, used to make long-term loans that could be paid off out of the earnings of the factories and machines that the loans were used to buy. But today the average maturity of our loans is barely more than five years, and the interest rate is so high that very little of the earnings the assets produce is left over to apply against the principal.

That means that the solvency of the borrower now depends on his ability to refinance the loan when it matures. I hope that the loans we are making are sufficiently conservative that refinancing will not be a problem. But if all lenders were being that conservative, you would be hearing even more screams about the inadequate availability of credit.

If it were not for political policy, these considerations would cause prudent lenders to cease fi-

nancing overextended borrowers. Eventually, borrowers who needed accommodation, not to finance a new investment but to refinance a maturing debt, would have to sell their assets for whatever they would bring in order to avoid bankruptcy. Others would see their assets foreclosed and sold by their creditors.

Today political policy greatly complicates the picture. The situation I just described is deflation. After the traumatic experience of the 1930s, deflation is politically unthinkable. In fact, political imperatives have dominated Fed policy for many years. When inflation gets bad enough to become unpopular, the Fed pursues a restrictive anti-inflationary policy to the very brink of victory. But at the first real sign of deflation it beats a hasty retreat and floods the market with borrowable funds. That restores the market's confidence that it will not be pushed over the brink into deflation, and people are emboldened to borrow more in order to buy real things as inflation hedges.

During the latest crunch the American business community drastically reduced its investment in inventories in order to pay down its debts. But now that the upturn is here, no red-blooded American businessman is going to sacrifice market share for lack of product to ship. Instead he will borrow in order to rebuild his inventory. So from now on both business demands for credit and industrial commodity prices will be rising.

The most important reason interest rates will go up is that after 20 years of constant losses in the bond market nobody wants to make loans or hold bonds just for the interest income. They *will* shoot for capital gains or try to nail down a wide yield spread by borrowing short and lending long, so long as they believe that the Fed will keep on pushing interest rates down to combat the recession. That is how they express the euphoria that springs from not having been pushed over the brink into deflation. But that will last only until we have to face up to the reality of rising production, prices and credit demands. The season for euphoria has passed. ■

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Developing Financial Crisis.

Forbes/Index

Index of companies covered in news stories and by the columnists in this issue. Each reference is to the first page of the story in which the company name appears.

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Do you know anybody
who is somebody in business
who does not read
Forbes Magazine?

Forbes:
Capitalist Tool

"The more things change. . ."
Items from past issues of FORBES

Sixty years ago in FORBES

(From the issue of July 21, 1923)



Forest of derricks at Signal Hill, Calif., owned by the city of Long Beach

"Almost overnight, it seems, California, with a total production of nearly three-quarters of a million barrels of oil a day, 35% of the country's entire output, has become the dominating factor in the world's petroleum industry. Here new wonder oil pools in the Los Angeles Basin, at Huntington Beach, Signal Hill and Santa Fe Springs not only give California this supreme distinction, but they are shattering all records. . . . From a present defined area of less than 5,000 acres, these new fields alone are pouring forth daily more than half a million barrels of high-grade crude oil. And this is with a curtailment program in effect whereby 30% of potential production is held back."

"Without question, the serious fall in stock market values has exercised a depressing influence upon business. Pessimism has been aggravated by a series of big brokerage failures, both off and on the stock exchange, entailing liabilities running into two or three scores of millions of dollars. . . . This panicky state of affairs in Wall Street brought lower and lower stock quotations and had a distinctly disturbing effect upon industry."

"All recent testing of voters reveals that President Harding wins more votes than any other presidential possibility with the exception of Henry Ford. And it is everywhere accepted that Mr. Ford will not be endorsed by

either of the regular party managers. Also, the prevailing opinion in responsible circles is that, should Ford run on a third ticket, he would simply insure the triumph of the Republicans. The political outlook, therefore, is not gravely worrying high-ups."

"Brakes on all four wheels are now shown on a dozen American cars, the construction differing as yet in many details. At three or four periods since 1900 French and English engineers and manufacturers have proved that brake equipment for the front wheels is valuable for emergencies, and this time the improvement may stick. . . ."

Fifty years ago

(July 15, 1933)

"Iowa bakers beat a hasty retreat when they read Secretary of Agriculture [Henry A.] Wallace's sharp warning against their reported 60% rise in bread prices. They said they would try to keep price advances within actual additional costs. . . . Higher wheat prices and the soon-to-be-applied processing tax on wheat flour, the Iowa Bakers Association had announced, mean much higher costs; therefore, they would have to raise the price of their pound loaf of bread from five cents to eight cents. Secretary Wallace, in reply, pointed out that the increase in cost was only 1 1/3 cents a loaf; inferred



Financier Floyd Odium amassed a huge fortune in the Depression by buying up undervalued investment trust shares

that the proposed increase in price was unjustified; and reminded the bakers that he had full power to prevent unreasonable price-lifting."

"The sale of lubricating oil in unit packages that cannot be tampered with is gaining. In a test recently made in three middlewestern cities, filling stations found that their motor oil sales increased 25% through use of the new type of container. It has been claimed that 25% of the time a customer asking a filling station for a trademarked brand of oil becomes the victim of substitution or adulteration. The new cans make this impossible, and seem to increase purchasers' confidence."

Twenty-five years ago

(July 15, 1958)

"The prosperity [in France] has to be seen to be believed. In April, French industrial production was surging an amazing 67% ahead of the 1952 average and more than 10% ahead of 1957. As against some 20 million working Frenchmen, there were just over 20,000 drawing unemployment compensation. Were it not for the hundreds of thousands of Italian and Algerian immigrant workers, whole segments of French industry would have to shut down for lack of help. Cars, refrigerators and other gadgets, once beyond the reach of most Frenchmen, are fast becoming commonplace."

—Malcolm S. Forbes

"Ambitious Leopold D. Silberstein, the German-born refugee industrialist, [last month] stepped aside as president of battle-scarred Penn-Texas Corp., thus writing an almost certain finis to a fantastic empire-building spree. Into his place stepped the man who had actually pulled the chair out from under him, his archrival Alfons (Art) Landa, 60, a Washington lawyer with a pronounced proficiency for waging proxy fights."

"With U.S. exports down 25% this year and foreign nations (especially Britain, the Netherlands and Japan) building up their gold and dollar reserves to \$33.4 billion (a jump of \$546 million) in the first quarter, there was excitable talk about the prospects of an increase in the price of gold from the sacrosanct \$35 an ounce, which has remained unchanged since 1934. . . . Some U.S. speculators were talking about a price of \$50. . . ."

One machine can do the work of 50 ordinary men. But no machine can do the work of one extraordinary man.

ELBERT HUBBARD

Common sense is not so common.

VOLTAIRE

When you can do the common things of life in an uncommon way, you will command the attention of the world.

GEORGE WASHINGTON CARVER

Genius is the very eye of intellect and the wing of thought; it is always in advance of its time, and is the pioneer for the generation which it precedes.

WILLIAM SIMMS

Thank God for the creative ideas that enrich life by adding your own creative contributions to human progress.

WILFRED PETERSON

A Text . . .

But by the grace of God I am what I am: and his grace which was bestowed upon me was not in vain; but I laboured more abundantly than they all: yet not I, but the grace of God which was with me.

I CORINTHIANS 15:10

Sent in by John C. Holderfield, High Point, N.C. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

If the spirit of business adventure is dulled, this country will cease to hold the foremost position in the world.

ANDREW MELLON

Thoughts on the Business of Life

To rise above the level of a machine, a man must develop the power of thinking. Become a thinker, learn to produce useful, valuable thoughts and ideas, and no machinery will ever be able to displace you. Rule-of-thumb methods no longer suffice for either nation or individual. New formulas must be the product of hard, serious, sustained, clear-headed thinking.

B.C. FORBES

Notice carefully that sound judgment must precede the exercise of initiative.

CHARLES GOW

Curiosity is idle only to those who fail to realize that it may be a very rare and indispensable thing.

JAMES HARVEY ROBINSON

We live in deeds, not years; in thoughts, not breaths; in feelings, not in figures on a dial. We should count time by heartthrobs. He most lives who thinks most, feels the noblest, acts the best.

PHILIP JAMES BAILEY

While democracy must have its organization and controls, its vital breath is individual liberty.

CHARLES EVANS HUGHES

More than 3,000 "Thoughts," indexed by author and subject, are available in a 574-page book at \$13.95. Send check and order to: Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011: Add appropriate sales tax on New York State orders.

The men of action are, after all, only the unconscious instruments of the men of thought.

HEINRICH HEINE

Think and do things in order of their importance.

HENRY L. DOHERTY

Whatever one man is capable of conceiving, other men will be able to achieve.

JULES VERNE

It hinders the creative work of the mind if the intellect examines too closely the ideas as they pour in.

JOHANN SCHILLER

A wise man makes his own decisions, an ignorant man follows public opinion.

CHINESE PROVERB

Whoso would be a man would be a nonconformist.

RALPH WALDO EMERSON

I think to myself how many exercise their bodies, how few their minds.

SENECA

No one has to become muscle-bound by exercising the mind.

ROBERT HALF

I fear uniformity. You cannot manufacture great men any more than you can manufacture gold.

JOHN RUSKIN

Bring me men to match my mountains, bring me men to match my plains, men with empires in their purpose, and new eras in their brains.

SAM FOSS

The Observer's Perspective.

Thunderbird is from a new school of automotive design. A school which holds that every part of a car should contribute to its overall integrity, both for the road and the driver. The primary evidence: Thunderbird's unique new shape. Not only does its new shape need less horsepower to move through the air, its shape actually reduces lift for improved directional control and stability. The doors curve up into the roof to reduce wind turbulence and buffeting for less wind noise and better airflow efficiency. Even the drip rails are concealed inside to catch the rain, not the wind. Thunderbird. Even the way it looks helps the way it drives.

The Driver's Perspective.

There is one place where you can fully appreciate Thunderbird's engineering: Behind the wheel. A lightweight V-6 engine provides responsive performance. The automatic transmission is equipped with a locking torque converter that links engine and transmission for more efficient use of engine power. The power-assisted variable ratio rack and pinion steering is quick and precise. And a modified MacPherson strut front suspension and gas-filled struts and shocks give consistent ride quality and road handling characteristics no



matter what the road condition. Thunderbird responds to commands as if it were an exten-

sion of the five senses. It is a driver's car.

The Link between Man and Machine.

Thunderbird's interior is designed around the driver for a heightened sense of comfort and command. The steering wheel is located in such a way as to keep your arms comfortable. Climate and entertainment controls are centrally placed, an easy reach away. And all power-option controls are nestled in the central console center.

In other words, Thunderbird fits you.

Thunderbird in Total.

Thunderbird is a new blend of aerodynamics, performance, comfort and control. It represents a new kind of car that from any perspective is a turning point in American road machines. Pure form. Pure function. Pure Thunderbird.

Mileage estimate: 29 est. hwy., [21] EPA est. mpg. For comparison. Your mileage may differ depending on speed, distance, and weather. Actual highway mileage and California ratings lower.

Get it together — Buckle up.

Have you driven a Ford . . . lately?



Pure Form. Pure Function. Thunderbird.

"Everyone in my company is buying different kinds of computer equipment. It's costing us a fortune. I need a computer system network that's available now. Who's got one?"

"Gould." 

Gould has developed a distributed computer network with workstations that can tie financial, administration and text management environments to design and engineering functions, while connecting them all to manufacturing and distribution. Computers, up through high-performance 32-bit minicomputers, are only one of six rapidly expanding electronics markets in which Gould is concentrating its interrelated technologies and products. The others are factory automation, test and measurement, medical instrumentation, defense systems, and electronic components and materials. For more information about our growth strategy, write: Gould Inc., Department B, 10 Gould Center, Rolling Meadows, IL 60008.



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SHOULD YOU CHOOSE ?

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The most successful engine transplant in automotive history.

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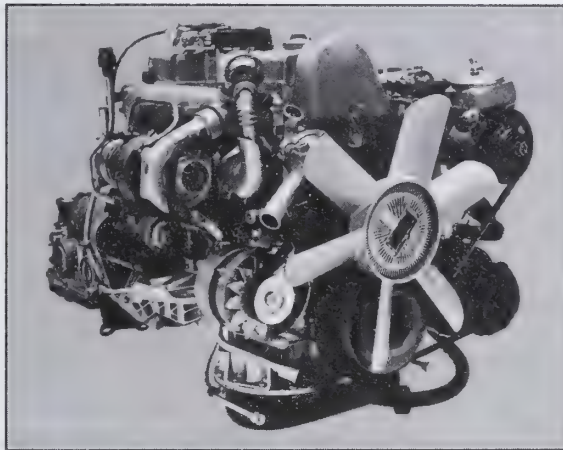
Mercedes-Benz transferred the best-performing engine in diesel annals from the record books to the production line—creating the best-performing diesel automobile in America, if not the world: the swift, smooth, highly civilized 300D Turbodiesel Sedan.

Five cylinders, turbocharged, so intent on high performance that its pistons would be constantly cooled by automatic injections of oil—it was a radical new breed of diesel engine that Mercedes-Benz designed.

But instead of rushing it into production, the engineers first raced it around the high-speed Nardò circuit in Italy—mounted in the C-111/3 research vehicle shown in the background at left.

Circulating for 12 continuous hours at an *average* of 195 mph, the C-111/3 and its amazing new power plant proceeded to establish nine new world speed and endurance records. No diesel had ever gone this far, this fast before. And perhaps no record-setter had ever run so frugally before. The C-111/3's fuel mileage for 12 hours at almost 200 mph: 14.7 mpg.

The point had been made. The performance diesel engine was proven. Sufficiently so that its de-



Powerful 3-liter, 5-cylinder turbodiesel engine lends the 300D unrivaled performance.

Generating vivid acceleration and muscular passing power; cruising ease all but indistinguishable from gasoline-powered cars; and EPA fuel mileage figures of 27 mpg city est. and 33 hwy.*

Chassis to match

The 300D's engine performance is complemented by its over-the-road performance.

"The 300D's success in striking a balance between ride, comfort and handling response is equaled by less than a handful of other cars in the world," reports one American automotive journal.

That highlights one key difference between the 300D and common luxury sedans. Another is driving pleasure; this must be one of the *nimblest* 1½-ton automobiles afoot. Its highly refined fully independent suspension system means that you can cover ground quickly in this car—even if the ground is full of chuckholes, sudden curves, or other rude surprises.

The cabin meanwhile affords

civilized comfort for five persons. This is more than a matter of trappings and gadgetry. The 300D is a *solid* machine, secure-feeling even in extremes. Careful aerodynamic detailing of the exterior helps keep it almost eerily free of wind noise. Your body is rested in carefully contoured, heavily padded seats specifically designed to cope with the physical stress of prolonged driving.

Amenities are plentiful.

Automatic climate control, electronic AM/FM stereo radio and cassette player, electric window lifts—few if any reasonable creature comforts are *not* fitted as standard.

The 300D incorporates 120 safety features as standard equipment as well.

Proven on paper and on the road

Proof of the 300D's worth can be found on any road in America. It is amplified on paper—in the record that this car has compiled for retaining its value.

After the first three years, in fact, the 300D Turbodiesel Sedan has been shown to retain an average of 80 percent of original value, at retail. Proof, indeed.

*EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather. Actual highway mileage will probably be less.

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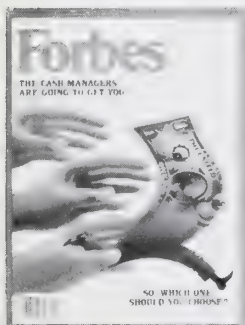
was then carried over to the production line virtually intact. It is now found beneath the hood of the 300D Turbodiesel Sedan shown here.

The result is the best-performing production diesel automobile in America, if not the world.



Engineered like no other car in the world

August 1, 1983
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Illustrations and Charts:

31, 133, 134, Chas. B. Slackman; 33, Susan Gray; 35, 36, 37, 38, Alan Reingold; 48, 160, Tim Lewis; 76, Peter Kuper; 146, Gary Hallgren; 148, Jeff Danziger

Cover Illustration: Gary Hallgren

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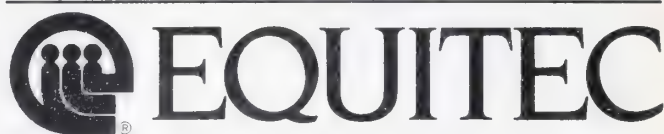
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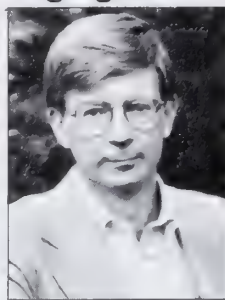
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Paging Mrs. Grundy



George Will

At least one major newspaper has decided to drop columnist George Will on the grounds that Will gave some private advice to candidate Ronald Reagan in the 1980 presidential campaign. The indignant newspaper claimed Will thereby violated journalistic ethics. What unctuousness on that paper's part, what risible self-righteousness! Has no one in the Washington press corps ever publicized a politician or a pet cause in exchange for a so-called scoop? Do reporters come by their exclusives through sheer intuition? Is there no quid pro quo? And isn't a strong point of view expected of opinion columnists? George Will has more historical perspective than all the other Washington pundits put together. The stately clarity of his prose fills me with envy and sets a standard the rest of us can only aspire to. Six cheers for the best political essayist since Walter Lippmann.

You don't have to be Hungarian . . .

Hungary probably ranks with Tierra del Fuego and Timor as places of least interest to American businessmen. Nevertheless, I highly recommend Lawrence Minard's interview with Hungarian economist János Kornai. Page 64. It's a great read.

A long-lasting summer job

Since finishing his Hungary articles, by the way, Laury Minard, his wife, Elizabeth, and daughter, Sara, have departed London, where Laury served four years as our European Bureau Manager. They are now in Los Angeles, where he has taken over as chief of our bureau for the West Coast and Pacific Basin. Aged 33, Laury joined FORBES in 1974 as a summer researcher while he was working toward his Ph.D. in economics and soon decided to chuck academic economics for journalistic economics. Since then he's written about everything from Wall Street to the weaknesses of the Saddam Hussein government in Iraq. In his new assignment Laury expects to devote a good deal of attention to Japan and the Pacific. Little wonder. Born in Seattle, raised partly in Alaska, he spent his youth gazing toward the Orient.

A beautiful swan song

Jonathan Greenberg is only 25, but he has already developed many of the skills of a veteran reporter. It shows in the piece entitled "The rise and well-cushioned fall of Robert Sutton." Starting on page 34 of this issue, this story of a less than lovable rogue carries a profound moral for our times. FORBES, alas, is losing Jonathan Greenberg. He's embarking on a new career as a television scriptwriter. Our loss. Hollywood's gain.

A cheap source of long-term capital

Way, way back in the new issues boom of 1967-68, a principal of one of the then hottest companies told Senior Editor Howard Rudnitsky why selling stock to the public was a great deal for him. "Why," he exulted, "it's free long-term capital." Cynical but realistic, the company took its free capital and many of the early shareholders took a hosing. Same thing is happening again on a huge scale, Richard Stern and Laura Saunders report in "Doesn't anyone remember?" Page 31.

James W. McFarlane
Editor

July 5, 1983

Seafirst Corporation

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Sporting proposition

Always tough on the gridiron, the University of Alabama is now betting \$1.4 million that it can beat General Motors at the game of cost control. Last August GM announced plans to close its Rochester Products carburetor plant in Tuscaloosa, citing \$2 million in excess costs. Together with the United Auto Workers, local managers trimmed expenses at the 200-worker plant by \$1.53 million a year, but that wasn't enough to save the plant. In stepped 'Bama with a wager. The school would lease the operating factory for three years as an "Applied Research Facility." Under the terms of the agreement, Alabama's engineering and business professors must cut another \$470,000 per year in costs or the university will pay the difference. If the 'Bama cost-savings plans require investments, they will be funded by a capital trust to which each employee contributes \$1.40 an hour, repayable by GM when the three-year term ends. Meanwhile, Alabama will also use the factory for on-site classes in its practice of industrial management.

Pontiac places its bets

Pontiac general manager William (Bill) Hoglund is putting his bets for 1984 on a brand-new mid-engine two-seater, the Fiero. The division expects to sell at least 80,000 Fieros and says it already has 20,000 to 30,000 orders (half of them for stick shifts), even though the price has yet to be announced. Hoglund, however, says he hopes to put a "well-equipped" Fiero into showrooms at well under \$10,000. To keep costs down, Pontiac is using some new production gambits. One is to build a complete "drivable chassis" for the four-cylinder Fiero, then use a huge mechanical contraption to machine it and place preset boltpoints for the body panels,



Pontiac's new Fiero
Placing bets for '84.

which go on last. Another trick is to limit colors to four (red, white, black and silver), thus allowing the plant to run off hundreds of one-color cars without stopping the assembly lines. Hoglund has also solved another problem. When buyers suddenly began demanding bigger cars last year, Pontiac was caught short. It managed to bring in 3,000 Canadian-built Parisiennes, but the shortage, another official says, probably cost the division 80,000 car sales. For 1984 Hoglund can count on a more ample supply of Parisiennes, and the division is counting on selling 40,000 to 50,000 of them.

The bill for Congress

The cost of running the Congress today is more than twice what it was eight years ago, the Tax Foundation says in a new report. This year's outlay, the Washington-based research group notes, will be more than \$1.5 billion. That sum will be split almost evenly between Capitol Hill and such legislative agencies as the Library of Congress, the General Accounting Office, the Government Printing Office (each with more than 5,000 employees) and the Architect of the Capitol. The \$734 million for Congress alone averages out to \$2.5 million per senator and \$913,000 per House member, the Foundation says. (The other \$90 million goes for joint activities.) Total employment in the legislative branch has steadied in recent years at between 38,000 and 39,000—some 25% higher than employment had been in 1970.

Credit at the pump

It may not be long before American motorists can gas up without ever seeing a station attendant. Conna Corp. of Louisville, Ky. says its Remote Services Inc. gasoline subsidiary test-marketed the first credit-card-activated gasoline pumps in Louisville and Lexington, Ky. and plans to install 200 more in Kentucky and Indiana beginning this summer. Customers simply pull up to the pump, slip in their plastic credit cards and pump gas, says Conna. (The units automatically verify the cards and process the transaction.) "Customers are more likely to fill up their gas tanks" with Autocard, says John L. Spears III, president of Remote Services. "Autocard is easy to operate. In fact, it's even fun." The key to the system is a software program developed by Quad-

star Corp. of Dallas that allows the automated gas station to tie directly into national credit and debit card systems before pumping the gas. Conna is so excited about the system, in fact, that it bought into Quadstar earlier this year and has formed another subsidiary, Remstar Corp., to market electronic payment systems to other gasoline retailers. Conna says upcoming systems will also take cash.

Meet the analysts

Two Washington, D.C. newsmen are selling a new wrinkle to money managers. Curt Matthews, former bureau member of the *St. Louis Post-Dispatch* and the *Baltimore Sun*, and Ray White, ex-producer of the *Wall Street Week* television show, have teamed up to produce *StockWatch*, copyrighted video interviews of corporate chief executives. The taped shows are offered to institutional investors as research. Matthews and White conduct pre-show interviews and then have the selected company's CEO come to Washington for the actual taping (which they do in a \$3.5 million U.S. Chamber of Commerce studio). To handle the questioning, InvestorVision, the Matthews-White company, picks three-member panels of leading analysts. The format has White open the show, followed by the grilling of the corporate star; the latter then leaves, and the panel does a commentary on what has been discussed. After two pilot shows (one on Whirlpool and one on Montana-Dakota Utilities), InvestorVision began in earnest with a show on Mitchell Energy & Development, the oil exploration company. The selling is handled by Lynch, Jones & Ryan, the New York brokerage firm, which works out "soft dollar" deals with institutional clients. These are arrangements whereby an investor buys research in exchange for an agreed-upon amount of commission business.

Who's coming to the fair?

The world's fair slated to open in New Orleans next spring is having trouble drawing a crowd—or even a quorum. So far only one foreign country, Japan, has actually signed up; less than half the 82 acres allocated adjacent to the French Quarter and the business district has been leased; and almost two-thirds of the international and corporate exhibition space has not been spoken for. Petr Spurney, the fair's

president, blames the late start on last year's world exhibition in Knoxville, Tenn. "We were required to hold off our international marketing until after they opened," he says. Now dickering with 24 countries, the New Orleans show is still behind the one-year commitments of the Knoxville fair. And now it has to compete with Disney World's EPCOT in Florida, which runs a 365-day permanent exhibition, compared with the one-shot 184-day affair in New Orleans.

The President's ear

Who has the President's ear? At formal Cabinet meetings, Ronald Reagan, who is hard of hearing in his right ear, sits in the center of one side of the table. The senior Cabinet officer, Secretary of State George Shultz, sits at his bad ear. Secretary of Defense Caspar Weinberger, who ranks third by Cabinet protocol, sits next to the President's good ear.

GIs in shades

Before the end of the 1980s American combat troops will take to the battlefield wearing colored goggles. The shades will become standard issue to protect not only against flying debris but also against lasers. The Army is already testing dark green lenses (at \$20 to \$40 a pair) but admits they are not effective against all the laser wavelengths that are expected. By 1985, just-retired Army Chief of Staff Edward Meyer told Congress, both the U.S. and the Soviet Union could be fielding laser systems. The Army won't say what kind of Russian lasers it eventually expects, but an earlier Pentagon publication talked of laser battle tanks that shoot down missiles, and ammunition that relies on laser guidance. The problem with making the GI specs adaptable to a new range of laser wavelengths, the Army says, is that "this technology does not exist." Laser damage aside, Meyer said another reason for the battle glasses was that 3% of the injuries suffered by Israeli troops during last year's invasion of Lebanon involved eye damage from sand and building fragments.

The fast track

With the U.S. on a "reindustrializing kick," says Arden Bement Jr., TRW's vice president for technical resources, a new fast track may be coming up for engineering graduates. "We went through the period where atomic en-



George Shultz, President Reagan, Caspar Weinberger

Who is the President's right-hand man?

ergy was the hot field, and space, and electronics, and computers," he says. "Well, the emerging hot field right now is manufacturing engineering, believe it or not." By this, Bement does not mean only machine or plant design but also the art of applying computers to control the manufacturing process. These "robot jockeys," as he calls them, are coming into the age of "computational plenty," and they are eager to apply their skills. He sees the old up-from-the-ranks career path giving way to more emphasis on advanced degrees and even sees the day coming when plant managers will have Ph.D.s. As for TRW, he says the Cleveland conglomerate is putting more emphasis on candidates with both M.B.A.s and engineering degrees. "We also need leaders," he says.

Profile in plastic

Mr. and Mrs. America typically carry six credit cards in their wallets, says Spencer Nilson of Los Angeles, publisher of a newsletter for credit-card executives. But some kinds of plastic money aren't as popular as formerly. Bank cards dropped from 120 million in 1979 to 103 million last year, Nilson reports, and will slip below 90 million by 1990. Each American carried an average of 2.5 such cards in 1979, now has 1.5. The reason: Many bank cards were canceled when Jimmy Carter imposed credit controls in 1980, and many more were dropped when banks began charging for them. As for the rest of the plastic wallet stuffers, 58% of the total are issued by retail stores and a typical American owns 3.8 of them. Most drivers still carry one or two oil company cards, but gas cards dropped from 125 mil-

lion in 1978 to 101 million last year. (Shell has the most.) As for travel and entertainment, American Express is still the hostess with the mostes'—about 94% of the U.S. market.

Homegrown imports

Still another foreign bus manufacturer is setting up in the U.S. Next fall Sweden's Saab-Scania will start rolling 250 buses a year—about 8% of the market—out of a \$7 million plant in Connecticut. Engines and running gear will come from Sweden, but about 3,500 body parts will be bought from American suppliers to meet a requirement (to get federal funding) that at least half the vehicle's value be homegrown. Sweden's Volvo is now assembling buses in Virginia; M.A.N. Truck & Bus of Germany has a plant in North Carolina; and Germany's Neoplan is operating in Colorado.

The money man's views

No matter how big the federal deficit may be, Congress will make no move to raise taxes in 1984, an election year, according to Treasury Secretary Donald Regan. "If you believe they will," he says, "I've got a bridge for sale." Regan does say that he would like to simplify the income tax system but that it's not easy: "The more you get into it, the more complicated it becomes." His study of "flat" taxes and other proposals has convinced him, he says, that an across-the-board rate of, say, 15% with no deductions or exclusions just won't work. Nonetheless, he adds, "there has to be an easier way."

Meeting Japan's Challenge

Eleventh in a Series

**KEY THINGS
TO REMEMBER
IF YOU'RE TRYING
TO SELL THE
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One of the most difficult challenges facing American business has been to find a way to sell to the Japanese. We think we have a solution.

It's a simple strategy and involves only a few basic steps. But it has worked for us.

Instead of just talking about building quality products, years ago we committed our entire company to doing it. And in living up to that commitment we've proven that with the right approach American manufacturers can meet the Japanese on their own home grounds.

A big key to success is having a strong enough commitment to get through the tough initial stages. We learned this in 1978 when, with the encouragement of the U.S. government, Motorola decided to compete for some of the electronics business traditionally awarded only to Japanese companies by Japan's giant Nippon Telegraph and Telephone Public Corporation.

It was a bold undertaking that required substantial investments of time and money. In fact, just to enter the competition it was necessary to complete an exhaustive survey of competitive products and to translate and study all the pertinent Japanese specifications.

But if you want to sell to the Japanese you have to make the effort. So we did it.

Then we did something even tougher. We committed ourselves to exceeding the quality standards they set for us.

And succeeded. In early 1982, after competing with a number of Japanese electronics manufacturers, Motorola demonstrated in rigorous testing that our pagers exceeded NTT's reliability standards, while complying with their strictest price and delivery requirements.

As a result, Motorola was officially qualified by NTT as a supplier of pocket pagers. The

first and only non-Japanese firm ever admitted to this heretofore closed group.

Orders for over 50,000 Motorola pocket pagers are expected this year alone.

In striving to exceed quality and reliability standards, though, it is equally important to maintain high standards of customer service.

We are convinced that this success in the Japanese market is due largely to the way we approach every one we serve.

It's a simple common sense way of doing business that says we pay as much attention to the wants and needs of our customers as we do to the quality of the products we make for them.

We think there's one other basic factor that's also responsible for Motorola's success in selling to the Japanese. Our participative management attitude.

One of our goals is to make every Motorola employee in every Motorola plant an effective part of the management team of our company. And because employees are motivated by this chance to participate and are rewarded for their efforts, we've found we're able to bring to bear on every product we make the enthusiasm, the dedication, and the attention to detail that result in the highest kind of quality.

The kind of quality that has allowed an electronics company like Motorola to sell in a country where they make some fine electronics themselves.



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Follow-Through

The wild, wild West

Chilean-born broker Juan Carlos Schidlowski started OTC Net, a hot, Denver-based firm, with \$40,000 in 1978, and by 1982 was proclaiming himself the personification of the American dream. He and two partners—a veteran broker and a former gym teacher—had by then raised \$50 million for a stable of 21 companies that were “decidedly wild and wool-

Last May the final blow fell when Schidlowski and four of his associates were indicted by Denver's District Court on 21 counts, including 17 of securities fraud, forgery and criminal impersonation. Clement charges that Schidlowski and his associates defrauded investors of at least \$2 million to \$3 million and used a Swiss subsidiary to trade up OTC Net's offerings in the secondary market. Another charge, against partner Joseph



Juan Carlos Schidlowski in custody

A rude awakening from the American dream.

ly,” FORBES reported (Jan. 4, 1982). OTC Net was the largest and fastest-growing brokerage establishment in Denver's freewheeling over-the-counter market.

Schidlowski, who boasted revenues would top \$50 million in 1982, employed more than 300 brokers in 24 U.S. offices and ran another in Switzerland for foreign clients. “We aren't a penny-stock firm,” he said. “We're a venture-stock firm.” FORBES cautioned, however: “It's a distinction that may or may not be real.” Among the companies Schidlowski promoted were Elan Air Corp., a Boston-based airline that had no airplanes, and McCoy Industries, which had big plans to market sawhorses and picnic tables.

But all good things must end. According to Jim Clement, chief investigator for the Denver District Attorney's office, OTC Net was under scrutiny by his office as early as May 1981. “We had a substantial number of complaints about the activities of OTC Net not consistent with the law,” he says. In May 1982, the corporation was indicted for securities fraud, partly for touting Elan when OTC Net allegedly knew the airline was broke. OTC Net went under ten days later, Clement says, and its records were opened to the DA's office.

Pignatelli: impersonation of Gilbert M. Grosvenor, editor of the *National Geographic*.

Schidlowski is free on \$175,000 bond, reportedly at his home outside Albuquerque, N.M. The Denver DA is holding his family's passports. And OTC Net and its principals, says Clement, are still under investigation by other agencies.

Bloody but unbowed

A year ago Houston's Harold Farb was riding high (FORBES, Feb. 1, 1982). Probably the U.S.' second-largest apartment owner—he had 19,000 of them—Farb had an estimated \$150 million net worth and plenty of time for hobbies like publishing a magazine for the Texas elite and recording himself singing Gershwin and Jolson tunes. He was getting away from his 18-hour working days by letting younger members of his companies begin a planned \$1 billion plunge into the office building market.

The timing couldn't have been worse. The Houston real estate market, paced by the energy industry, overbuilt while the going was good. Now, Farb's 1.4 million square feet of new office space face record low occupancy levels and savage competition

for tenants. Houston building owners are giving away 2½ years' free rent on 5-year leases. Some brokers report promises of free Porsches for bringing in tenants, and one brand-new building downtown is a glittering shell, totally unleased. The average vacancy rate in office space is 23%, quadruple the rate in 1981, when Farb started building, and the vacancy rate of office space under construction averages 64%. With 41 million square feet, or an estimated five years' worth of office space now available on the market, construction on 65 of 79 new office buildings in Houston has been postponed by their developers. Says one lease broker: "You just wouldn't believe how tough it is. It is absolutely devastating."

The first three Farb buildings, costing, by outside estimate, \$200 million including land, are no exception. They are only 26% leased, with 1 million square feet vacant. Rent from the first two, expected to be fully leased by mid-1984 and 1985, would help with expenses—although Farb has other cash drains: His magazine *Ultra* has cost him \$3.5 million so far, and his recent divorce from his socialite wife Carolyn exacted \$17 million, \$8 million of it in a five-year note.

Farb says he can ride out the bad times. "You can never assume conditions are going to remain wonderful," he says. "I grew up during the Depression, so our approach is very conservative." Other real estate men tactfully agree that Farb's shrewd financing "planned for all this," but neither



Harold Farb
Still singing, but back in harness.

Farb nor the Farb Companies will talk about financing, investors, construction costs, or how much free rent they may be offering. Farb, although still singing Gershwin, is back full time at his office. His future plans? Undaunted, he says: "Real estate, real estate, real estate."

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Readers Say

Heavenly CEOs

SIR: Of course, CEOs have their offices on the top floor ("The executive suite," *Trends*, July 4). It is common knowledge they are bestowed with divine guidance—and they want to be as close as possible to the source.

—George R. Umble
Santa Ana, Calif.

Don't blame docs

SIR: Blaming "greedy doctors" (and lawyers) for the rising costs of medical care in the U.S. (June 6) makes as much sense as blaming the pilot of a jet for the high cost of flying, compared with driving. The inflation-adjusted average income of doctors has been falling for the last ten years. Meanwhile, the earnings and stock prices of many hospital supply companies have consistently risen. Are greedy businessmen to blame for the high cost of health care?

Cancel my subscription.

—Robert Newcomb, M.D.
Granada Hills, Calif.

No subsidy

SIR: Hyster Co. Chairman William Kilkenny's assertion that "unfair subsidization" gives Japanese industry its competitive edge (July 18) is unfounded. The Japanese government does not use public funds to subsidize exports. Export credits are used in Japan, but they follow OECD guidelines and are not considered "export subsidies." Every country, including the U.S., extends such export credits.

—Seiichihiro Ohtsuka

Director,
Japan Information Center
New York, N.Y.

We're providing a service

SIR: The FORBES article "Whoops!" (June 6) impugns the integrity of the entire securities industry by using incendiary words such as: "carnival barker," "freak show," "hordes of muni bond salesmen," "screaming" advertisements and "unconscionable" spreads. The attack is unwarranted. If a broker does not look after his customers' interests, he will not have them long. The same goes for sponsors of unit trusts.

Service is survival.

If there were not normal profitability in this process, all investment firms would go out of business.

—Richard J. Franke
President and CEO,
John Nuveen & Co.
Chicago, Ill.

Gratifying degrees

SIR: We are soul mates regarding honorary degrees (*Fact and Comment*, June 20). What an ego trip.

I shamelessly hang framed photos of me in cap and gown and point them out to any guest who may have missed them.

Two are coming up, and I can hardly wait.

—Ann Landers
Chicago, Ill.

Useless paper shuffles

SIR: Re "Hardball divorce" (*Personal Affairs*, July 4). To hold off seeing an attorney and to rely solely on an accountant, especially in states with complex community property laws (such as most of the western U.S.) is stupid. Courts do not hesitate to penetrate the "veil" of ownership. All the "clever" paper shuffles done shortly before/after the final split are of little real use if counsel for the other spouse is half competent.

—Thomas H. Clarke Jr.
Santa Barbara, Calif.

Pakistan

SIR: Your article on Pakistan is very Zen (June 20). But your editorial describes Pakistan as a "Muslim country" gaining "independence from India's huge Hindu populace." India won independence from the British, who, in withdrawing, partitioned the country, thereby creating Pakistan, presumably to satisfy the Muslims. But India retained a huge Muslim populace, now larger in numbers than the population of "Muslim" Pakistan. India, as a secular state, is not just Hindu but the country also has big minorities of Muslims, Christians, Parsis and Jews.

—Vishwa Bandhu Gupta
New Delhi, India

SIR: OPIC recently sponsored an "investment mission" to Pakistan made up of 28 U.S. business executives. The

visit was an enormous success.

Of the 26 companies represented 18 announced 20 separate projects that had been confirmed, and 6 additional firms were actively following up on specific investment opportunities identified during the mission. Total U.S. investment in Pakistan could approach half a billion dollars as a result of this event.

It was the businessmen themselves who were the heroes of this. Interestingly, our ambassador over there never showed up at a single event during the nine-day period.

—Craig A. Nalen
President and CEO,
Overseas Private Investment Corp.
Washington, D.C.

SIR: Speaking of the barbaric custom of purdah, you write, "the veil represents an astonishing homage to feminine beauty."

Nonsense.

The veil is an astonishing homage to male lust and the ultimate degradation of women as sex objects. Women are expected not to participate in the economy, society or even sports, sacrifice freedom of physical movement and even clear eyesight; lest some man be "tempted."

Since the males seem to be the problem, it would seem to make more sense to blind the men.

—JoAnn McKenna Steiger
Los Angeles, Calif.



Capital still in

SIR: The statement that "Morgan, Keegan's principals, in effect, took out all their capital" (July 14) is in error. None of the firm's principals has reduced his investment.

—Allen Morgan Jr.
Chairman,
Morgan, Keegan & Co., Inc.
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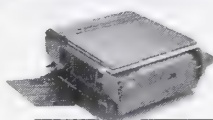
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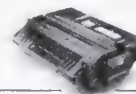
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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

DEBATEGATE

So some of the Carter camp, sensing election catastrophe, sought to ingratiate themselves with the prospective victors by scurrying over with papers on their candidate's campaign plans.

Big deal.

You and I can safely offer to eat any hat of any and every candidate who's thrown it into a campaign where no one

on either side ever gave or received information on what the other was up to. President Reagan was right the first time, when he said the whole business was "much ado about nothing."

It will be a millennium before public officials' tittle-tattle about one another's campaign strategies is their biggest shortcoming.

Illegal Dumping of Toxins Laid to Organized Crime

—New York Times

To whom is that news?

How many corporations, do you suppose, that sign up for the disposal of their toxic wastes never had a clue how it was being handled?

How many local and state officials now expressing horrified astonishment at the discovery of dioxin and other poisonous wastes in their dumps and sewers and on their streets never, ever had a clue how it was being handled?

Who, would you guess, are among the most consistent—and biggest—cash contributors to campaigners for public office on the local, county and state levels?

Guilt is more widespread than toxic waste itself.

But right now the more pressing problem isn't punishment, it's prevention. Which plainly isn't quite as easy as proclamations and breast-beating would suggest.

If the Reagan Administration wants to wipe out the

sorry public impression of its competence and concern in the whole matter of environmental protection, it has a golden opportunity with this issue.

- Summon to the nation's service, from such appropriate private industries as chemicals and medicine, those competent to determine the best methods of distilling, encapsulating, transforming detrimental wastes.

- By the exercise of eminent domain, if necessary, designate suitable sites suitably supervised—if possible, operated by private enterprise.

The time to turn foaming and foment into effective action is now. The cost for solutions will be nothing like the cost of not coming up with them.

In the person of William Ruckelshaus the Administration has a potential environmental savior—if those around the President give him full backing.

MAYBE THE CABLE BOYS CAN LEAD OUR ARCHAIC TV INDUSTRY

into providing sets with the infinitely superior picture quality now technically available. And make the standard universal. Here, last May, we asked, "Is there any way we could ease into a single worldwide video standard with

new sets, and develop adapters available for old sets?"

Steve Kindel's article on page 137 points out the exciting and hugely lucrative potential open to cable television to do just that.

FORBES TALKS WITH PRESIDENT REAGAN

ON WILLIAMSBURG

The President: All of the heads of state [at Williamsburg] agree that we're all guilty of too much protectionism. And we've got to work harder to rid ourselves of that.

MSF: You certainly came out of Williamsburg smelling like the Rose Garden. [Laughs] I think it was great that everybody predicted the summit meeting was going to be either a waste of time or a blowup—but you came out of it with perfectly rational findings and widespread support.

The President: Well, you know, at the previous meetings—the two that I'd attended before—someone had virtually written the communiqué in advance of the meetings, and the meetings therefore had to match the script. So people made presentations, but there was never really any freewheeling discussion. This one, there was no communiqué—so, from almost the first moment, we got into a subject like trade and then just had a free-for-all around the table. And we never left a subject until we had a consensus on it. We didn't take a vote and say, "Well, three dissenting and four in favor," or anything. And we worked it out to where we agreed on the things that we could do.

And I must say, all the rest of them were very generous in their evaluations of the meetings.

MSF: Well, they were very, very impressed that you were not dogmatic about anything, that you valued their thinking.

ON SUMMIT PROSPECTS, AFGHANISTAN, SYRIA

MSF: Mr. President, do you see any value, at some point in the months ahead, of meeting with Mr. Andropov?

The President: I don't see it in this year unless something arises that we can't foresee. Certainly, we're supportive of the idea, if there is an agenda where something can be accomplished. The one thing that, I think, would be very bad, and you have some people talking about it, is to have one just to get acquainted, because people's hopes get too high on a meeting of that kind. And then, to walk away with nothing is too much of a letdown.

Now, if in the months ahead and the early part of the year, if we can come to some meeting of the minds on practical things to discuss and that offer some possibility of improving the situation, fine.

MSF: Do you see—do you have inklings as to whether or not anything's going to come out of Afghanistan in the way of a withdrawal? Pakistan's President Zia certainly seems to be trying hard and effectively and is a good friend to us.

The President: Yes. Right now, there is no indication of any weakening. If anything, the Soviets have strengthened their forces there. And that is something that clouds the horizon. It would be difficult to sit down and start talking about the other issues while this total violation of everything that every nation has pledged to in the Charter of the United Nations is being violated in

what's going on there. And it can't be ignored.

MSF: Speaking of withdrawals, do you have any indication that Syria is going to make even token evacuations in Lebanon?

The President: We're going to work for more than that. And we're going to continue to work for that. Syria was one of those at the very first that said, "When everyone withdraws, we'll all withdraw." And now they seem to be violating that promise and, on what pretext, I don't know. But we're not going to give in. We're going to continue working with our friends among the Arab nations who agree with us on this.

MSF: Do you feel it's principally because of the Russian aid?

The President: I think Russia is pushing hard in there and this is . . .

MSF: Sort of her backdoor entry to the table, so to speak?

The President: Yes, and this is a situation we have to look at as to what the answer to that might be.

ON THE SECOND TERM

MSF: Incidentally, Mr. President, speaking of politics, I hope and believe you will run again. But I hope you won't make any announcement about it until you have to. It might have a lot of political effects that wouldn't all be good. Keep us on tenterhooks—as long as the final decision is positive!

The President: I'm very much aware of that. Either way, to become a lame duck if I say "no" would . . .

MSF: Perish the thought.

The President: . . . that's right, would paralyze everything we're trying to do. To say "yes" would then make everything that I try to do be viewed as political, and the other side would mobilize against it. No. Besides, campaigns are too long. It's just ridiculous. I think this is why fewer and fewer people are voting all the time. I think we've satiated them. They're never free of political campaigns going on.

MSF: Yes, and I must say, I think, in terms of the Democratic Party, the fact that so many are running so hard so soon will create a certain amount of boredom, while the curiosity continues as to when you'll publicly make the statement we all hope and expect—and would be disappointed if you didn't. But all I'm saying is, I hope you don't get pushed into any early announcements.

The President: I'm in no hurry at all.

MSF: Good. As long as the answer's positive, Mr. President.

ON CENTRAL AMERICA

Steve Forbes: It seems that, since Mr. Andropov took over, the Russians have been stirring up trouble everywhere, whether it's Swedish subs, Syria, Vietnam, Central America. They seem to be stoking it everywhere.

The President: You mention Central America. You of the media, there is such a story that isn't being told. For



President Reagan: We're not talking about American military forces [in El Salvador. The Salvadoran government] can do it if we give them the practical help they need: economic help as well as military.

example, after my Apr. 27 speech, the polls indicated that a great many Americans did see El Salvador, Central America, in a different light. But the constant drumbeat of the opponents to that is such that the polls have gone back practically to where they were.

Now these congressmen that have come back have some fascinating stories to tell. They talked to 16-year-old boys, enlistees in the El Salvador army: "Why? Why are you doing this?" And these kids said, "To fight for our country." This isn't a thing in which there's a lackadaisical feeling on the part of the people. They feel as strongly as they felt when they voted a year ago last March.

But there are other stories, because the congressmen talked to others on the other side. They had high-ranking leaders of the forces that are backed by the Soviets and the Cubans tell them that this revolution is for real and that this revolution is aimed at all of Central America. They stated that. As a matter of fact, one of these high-ranking officers said to the congressmen, "Make no mistake about it. We'll be at the Arizona-New Mexico, Mexican border sooner than you think."

I think that it is winnable on our side, but we do need to get adequate funds from Congress to help them down there. What we need is to give them the weapons, the training. There's no question but that the battalions that we trained were the most successful that they had. And we need more of that, that kind of training.

And the American people have got to know that this is to our national interest. We're talking about if those people succeed, those Cuban- and Soviet-backed people succeed in getting their kind of dictatorships there, you can look for anywhere from seven to ten million refugees. The Contadora is trying to get—as they are called, those four countries that have banded together—I will be meeting, before too long, with some of those people.

But we support them and what they're trying to accomplish. But the thing we must recognize is that these are not just some peasants with muskets, embattled farmers out there in the hills. These are professionals. As a matter of fact, some of our people down there have met high-ranking officers they've met in other countries under other circumstances who are there now in the so-called Sandinista government, which is nothing more

than a surrogate for the whole communist movement.

More Soviet ships, actual Soviet ships, have unloaded cargo in Nicaragua so far this year than they did in the entire year of 1982.

MSF: I think public opinion—as before World War II—is slow to turn, especially after Vietnam. . . .

The President: Yes.

MSF: Central America is a whole different matter. But I think your own steadfastness in regard to it is going to help the public and the media basically because it's becoming just more and more apparent this is not Mr. Big trying to snuff out poor, starving peasants who want to be done with dictators.

The President: Yes.

MSF: That scenario is washing less and less as the Cubans and the Russians become more and more open in their support of the Sandinistas.

The President: Yes. And we're not talking about—as they keep harping on—we're not talking about American military forces. As a matter of fact, President Magaña said he would not ask for them. They can do it, if we give them the practical help that they need: economic

help as well as military. And economic help because they have a negative growth in gross national product because of the assaults of these rebel forces, destroying their industries, their power plants and their infrastructure. And creating additional unemployment to where they've got people that have to be cared for because their jobs have disappeared; the farmer that can't work his soil, work his farm, because of the guerrillas.

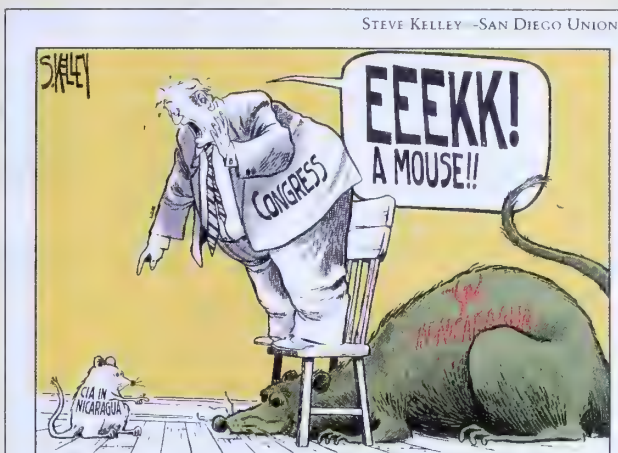
And they're playing political games up there—some members of the Congress—with this thing.

MSF: I think that, thanks to the efforts of the Administration, the public is becoming aware that Central America isn't Vietnam, that it's a real confrontation by the Soviets and the Cubans on our flanks.

Steve Forbes: As long as you don't let the opposition in Congress make the Administration gun-shy . . .

MSF: I don't think this fellow gets gun-shy too quickly. [Laughter]

The President: My trouble is, I go out there and I make a speech to somebody and then I see on the evening news 20 seconds of the speech, and nothing of importance in that 20 seconds.



President Reagan: We've got to do a better job of making the American people realize what is at stake in Central America and what is going on there.

MSF: Mr. President, I don't know if you saw this cartoon in U.S. News . . .

Reprinted from Fact and Comment, July 18, 1983

MSF: We read in the papers that some of the people who give you economic advice are talking about the necessity of slowing down the money rate and increasing interest rates so that the recovery doesn't get out of hand. I hope they're not saying the same things to you.

The President: It's just come to my attention that that's going on. No, that's not my view at all.

MSF: I don't think we need to worry about the rate of

recovery, about snuffing it out because it's getting out of hand.

The President: No. Not at all. . . .

MSF: But, you're not in favor of a return to high interest rates.

The President: No. And I'm not in favor of the things they're talking about on the Hill, of wanting additional tax revenues. Right now we've got a recovery going. . . .

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Debategate

Briefing book or no briefing book, our candidate was extremely unpopular in the last election.... Carter would have lost anyway.

—Tip O'Neill, Speaker of the House

Whether the latest Washington flap was as big a deal as the Democrats, certain newspapers and the TV networks made it appear, however, was highly doubtful. It will depend in large part on how the briefing papers were acquired. Columbia History Professor Henry Graff put the episode in perspective by noting, "This is not something that has struck a lot of people in the solar plexus." A Columbia colleague, Political Scientist Alan F. Westin, criticized the tendency of many journalists thoughtlessly to dub the affair "briefinggate" or "debategate." Said he: "I find myself just bored to tears by someone sticking 'gate' after every little foible." His point was well taken: the briefing book dispute did not remotely resemble a Watergate-class scandal.

—Time

"We Shall Fight on the Beaches, in the Streets..."

[There is] proposed legislation in Long Island that would presumably protect the rights of some of us by preventing the rest of us from smoking in public places. San Francisco just promulgated a similar law. And I am sore as hell and don't know what to do about it.

Let me confess my biases. I smoke cigars. When I cannot find a cigar I smoke Lucky Strikes. When I have the energy to use a pipe cleaner, I smoke a pipe. I know smoking's bad for me. On Channel 2 the other night they had a medical feature about people who run in New York City to get in shape, and the doctor they quoted said that running was fine. Except that when you run in New York you take in as many noxious gases in 30 minutes as you do in smoking a half-pack to a pack of coffin nails.

Restaurants cordon off sections now where you can't smoke, and they're even trying to get people to stop smoking at Madison Square Garden during the fights. Come on, that's like asking Boom Boom Mancini to go out there without a protective cup.

Let New York cabbies post "no smoking" signs amid the trash and stagnant fens of their backseats while their radios blast me with rock music....

Sixty years ago they tried Prohibition. It didn't work. Maybe next we'll have speakeasies where the wicked can smoke.

Thank God Winston Churchill didn't live to see the day.

—James Brady, *Advertising Age*

Public Works OK

Public works are beneficial and useful investments, even if Americans do not label them as such. Not only do they create desirable "ripple" or "multiplier" effects—creating jobs and spinoff businesses—but, unlike industrial duplication, they do not cause depressions. A giant public works effort would provide both a market for existing overcapacity and a sounder economic stimulus.

—Professor Frederick C. Thayer, University of Pittsburgh, *New York Times*

Uncontrollable?

What is now novel is not the economy's unsatisfactory performance but growing doubts about whether the instruments of economic policy—mainly the budget and



ANIMALS, ANIMALS, ANIMALS ©1979

"You're sure she's got a friend?"

money supply—can be easily manipulated. Before, economists were disillusioned with the results of changes in policy. Now, they are increasingly uncertain of their ability to control the policies themselves.

—Robert J. Samuelson, *National Journal*

Skills are out. If we shall soon have machines into which you put sheep and they come out cardigans, why teach anyone to knit?

—Quentin Crisp,

How to Have a Life-Style

No Periodicals

Lindsay Emmerson [English editor of *The Statesman*] told me a political joke about the time in 1975 when Indira Gandhi, India's prime minister, had declared a state of emergency and herded the leaders of her parliamentary opposition into jail. "This is true, on my honor. Someone I know went to a big bookstore in Delhi during the emergency and asked for a copy of the Constitution of India. And the bookseller said, 'I'm sorry, sir, but we don't stock periodicals.'"

—Gavin Young, *Halfway Around the World*

The Way to Bag It

"People don't like to check their bags," says Donald Burr, president of People Express Airlines. "They don't like standing in lines to check a bag. They don't like waiting for it at the other end. And most of all, they don't like finding that it's not there." People Express wants passengers to carry their bags on board. The airline has installed cavernous overhead compartments in its Boeing 737 jets. Its seats have greater clearance from the floor than most airlines' seats, so there's more room for luggage underneath, too. As a result, People Express says, each passenger can carry on at least two bags.

—William M. Carley, *Wall Street Journal*

God Doesn't Trust

I know why the sun never sets on the British Empire: God wouldn't trust an Englishman in the dark.

—Duncan Spaeth, *The Book of Insults—Ancient and Modern*, by Nancy McPhee

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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief



THE CHICKEN LITTLES OF WALL STREET

have been spooked in recent weeks by fears over what the Federal Reserve might do about the rapid growth of a money supply measure called M1 and over rumors that Brazil might default on its debts.

These fears are overblown.

Fact is, Brazil, not to mention two score other countries, hasn't been able to pay its debts, or the interest on them, out of earnings for more than a year.

As long as we don't do anything foolish, like demanding immediate payment or forcing a dramatic writedown on all debt of less developed countries (LDC) or trying to get an agency like the International Monetary Fund to take these loans off the banks' hands, this situation should right itself over time, despite scares in between.

The most immediate antidote for LDC debt woes is straightforward: a resumption of economic growth by the industrial countries, led by the U.S.

A Morgan Guaranty Trust study found that a paltry 3% growth by the U.S. and other economic biggies would cut LDC balance-of-payments deficits by half in 24 months.

Lower interest rates—which would come quickly if the Fed could ever get monetary policy straightened out—would be of sizable help as well. Each 1% reduction saves the LDC about \$6 billion a year.

Finally, these strapped borrowers should be "encouraged" to stop waging war against private enterprise.

As for M1, ignore it.

It is misleading for reasons this column has pointed out before. Principally, thanks to OPEC's financial problems, dollars banked outside the U.S., which are not counted as part of our money supply, are coming to American banks, where they are counted. The worldwide dollar supply is unaffected.

Other reasons for dismissing M1: Because of the revolution in financial instruments, the traditional relationship between it and the gross national product has been severed. In addition, an expanding economy creates more money. A low inflation environment, moreover, means that people are more willing to hold cash or leave funds in their regular checking accounts, which balloons M1. This phenomenon was most dramatically illustrated when the German hyperinflation was ended in late 1923 and the money supply rocketed for the next year or so.

The growth of M1 under these circumstances should be a source of encouragement, not despair.

Why doesn't Volcker publicly dismiss this M1 nonsense? Because he's afraid of "monetarists" who take it seriously. Monetarist godfather Milton Friedman is a friend of President Reagan's; monetarists hold key posts in the Treasury Department. There are several monetarists on the Fed's important Open Market Committee.

So Volcker bites his cigar and stays silent.

Odds are he will let rates go up a bit but not enough to completely abort the strengthening recovery.

GRIZZLY FORM OF ENVIRONMENTALISM

Please excuse that unbearable pun, but the National Park Service should "fess up" and reverse the mistake it made years ago when it closed down dump sites in Yellowstone National Park that bears, including grizzlies, would use to feed themselves.

The closures were motivated by a "forever wild" idea that bears should fend for themselves the way they did before man came upon the scene.

The result is an example of the law of unintended consequences. The grizzlies and their black and brown cousins began looking for food wherever they could find

it—nearby campsites, vacation homes and ranches where sheep and cattle grazed. Inevitably, people were maimed and a number of grizzlies, which are almost extinct in the continental U.S., ended up being shot.

The Park Service has been trying to remedy its original boo-boo with various expedients that haven't worked.

With over 2 million people visiting Yellowstone each year, the "forever wild" doctrine is a bit unrealistic.

Both bear and man would be better off by the reopening of those dumps or by the provision of spots where ample food would be left periodically.



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Sticky interest rates won't squelch this powerful recovery

A RECOVERY TOO POWERFUL TO STOP

WHAT IF OUR COLUMNIST BEN WEBERMAN is wrong (*p. 173*)? Weberman predicts that interest rates will soon resume their interrupted downward trend. But what if he's wrong? What if interest rates remain close to their current, still lofty, levels? Is the recovery doomed in that case? Not necessarily. Here's why:

The recovery is far stronger than most economists envisioned a few months ago. It now has a life of its own, too strong to be halted by a temporary uptick in rates. Real growth in GNP will approach 5% during the first half and possibly top 6% during the second quarter. That pace will accelerate as the year wears on.

The recovery is so strong because the recession was unusually severe. Taming inflation took a heavy toll on workers, consumers and business. But lots of good news is now resulting from that. Inventory liquidation, for example, was sharper in 1982 and early 1983 than ever before, and the rebuilding taking place is brisk. That means production will have to be stepped up to meet demand. Taken together, inventory accumulation and higher production will add about 2 percentage points to this year's GNP. That will increase jobs, overtime pay, personal income and consumer confidence, which already has improved dramatically over the past three months.

Inflation and government borrowing? Not to worry

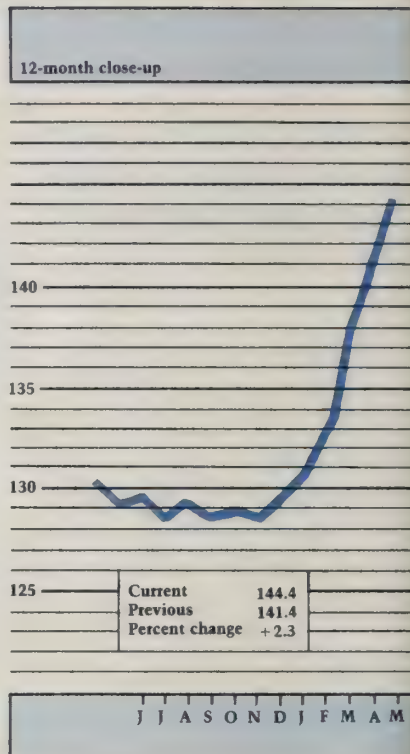
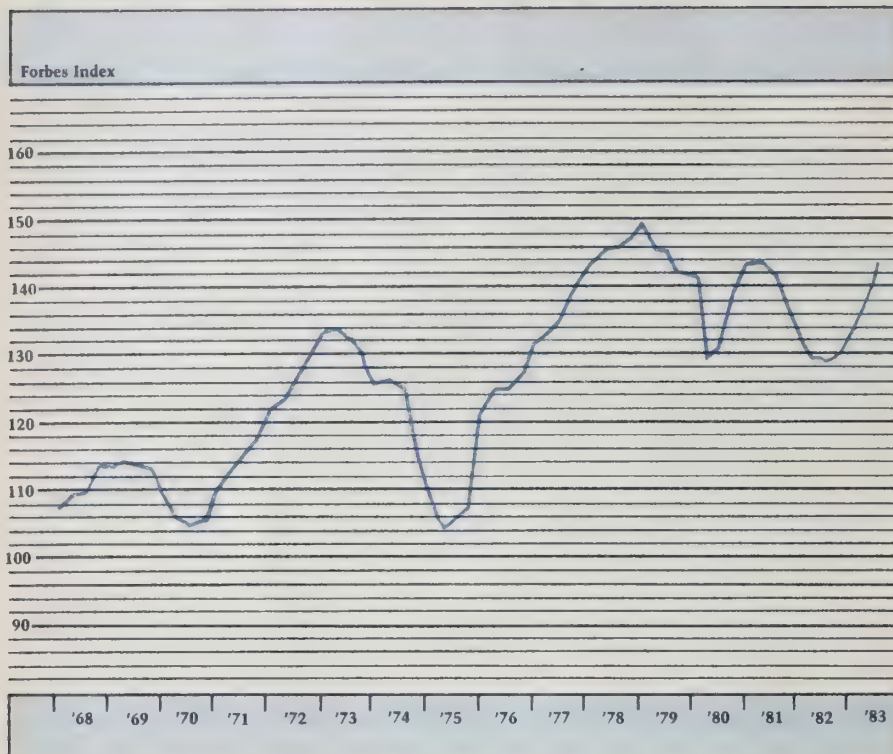
CONSUMERS, WHO ACCOUNT FOR TWO-THIRDS OF GNP, are confident because of two things: a decline in unemployment and a decline in inflation, the most important variables affecting their attitudes. In addition, households paid off so much debt during the downturn that their balance sheets are stronger than they have been in ten years. While corporate balance sheets are still weak, an enhanced quality of earnings and stronger depreciation flow is fast restoring them. The consensus forecast is that aftertax business earnings will rise by 15% in 1983. What's Ahead thinks that is too conservative and predicts they will increase by closer to 30%.

The improving corporate cash picture will reduce the need for corporate borrowing and reduce the chances of a "crowding out" caused by a clash between heavy Treasury and private borrowing. So there will be little upward market pressure on rates. The prime, currently at 10.5%, will approach 9% by year-end.

For many reasons this recovery is different from past rebounds

ALL IN ALL, IT'S A VIRTUOUS CYCLE typical of a recovery's first year, but with a difference this time: Because of the sharp belt-tightening, business productivity and profits will soar this time around. All of this will more than offset some stickiness in interest rates. What's Ahead thinks interest rates will start coming down as autumn arrives. But even if the decline is excruciatingly slow, this won't wipe out the recovery this year. People are getting accustomed to high rates, which look low, compared with what they were a year ago. Six months from now, high interest rates could slow the recovery, but What's Ahead is convinced they won't stay high that long.

The Forbes Index



Onward and upward. The Forbes Index has hit yet another high, posting a 2.3% rise. A major factor contributing to the gain was a 5.5% decline in unemployment claims during the latest reporting period. The decline follows a 1.8% drop a month earlier and represents the lowest level for such claims since April 1981. More important, it represents a 32.3% fall from the high-water mark for

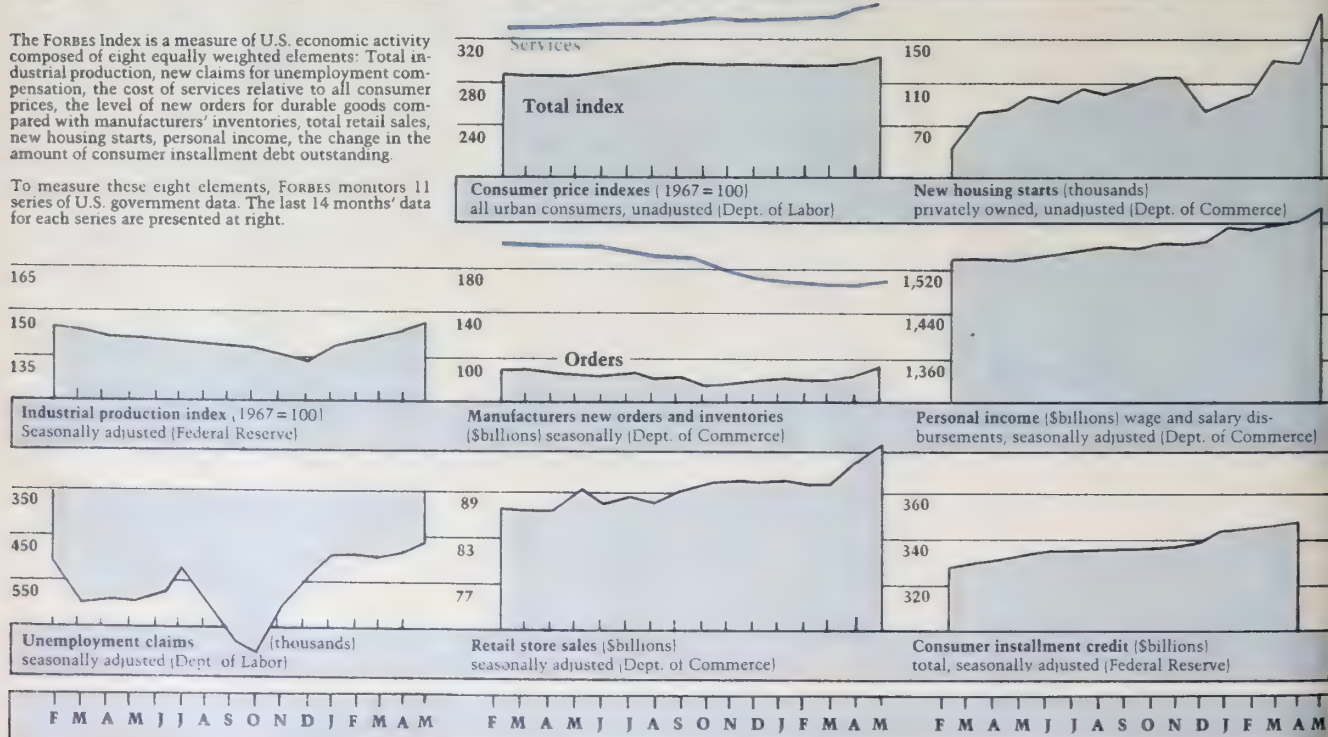
unemployment claims set in October of last year.

Good news comes also from the manufacturing sector. New orders registered an encouraging 1.3% gain in May. At the same time, inventories are no longer being liquidated but are being rebuilt, as the 0.5% rise in manufacturers' inventories indicates. The restocking of shelves will give new strength to the recovery.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.





WORD TO THE WEALTHY.

HAVING ONE'S CAKE AND EATING IT TOO IS LARGELY A MATTER OF PROPERLY MANAGING THE ENTREPRENEUR'S COMPLETE CYCLE OF WEALTH, FROM ITS CREATION, TO ITS INVESTMENT, TO ITS CONSERVATION FOR ONE'S ESTATE.

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"This time it's different; the big institutions are buying." Do such phrases reassure you about the new issues boom? If so, you are very young or have a short memory.

Doesn't anyone remember?

By Richard L. Stern
and Laura Saunders

WE CHECKED IN WITH Laurence Tisch. Larry, chairman of Loews Corp., has made hundreds of millions on Wall Street. He ranks among the relative handful of truly shrewd long-term investors. What's Larry doing in this hot new issues market? Avoiding them, he told us. No time to sort the wheat from the chaff. Better things to do with his time and money.

Tisch, it turns out, is not alone. On Wall Street we found old hand after old hand holding similarly dim views of the new issues phenomenon. We also learned how to make an investment banker or knowledgeable money manager laugh: Catch him unawares and say, "Telerate."

This company is often cited as proof that there's plenty of good merchandise in the current new issues boom. Telerate provides a much valued computerized financial information service and has a good record of revenues and earnings. Fine little outfit.

So why do people laugh when you mention Telerate? Goldman, Sachs and Rothschild, Inc. brought Telerate public in April at \$20 per share, or 71 times 1982 earnings and 20 times revenues, for a market value of \$880 million. Even if Telerate were to increase

profits two- or threefold, its current price would still be excessive. After all, IBM's P/E is 16. Sound company, funny price.

We cite Telerate, not because it is bad merchandise, but because it is superior merchandise that is priced to discount the hereafter. However, any-



one who thinks good but overpriced companies are the worst thing in this market doesn't know the half of it. J. Morton Davis of Manhattan's D.H. Blair boasts in large advertisements of having one of the best new issues records. Among Blair's latest is Tender Loving Care, which offers health care services at home. The company has "certain past-due obligations, including payroll taxes of \$100,000."

Payroll taxes? Going public to meet payroll taxes? That's an interesting switch. As Tisch said: There's too much chaff among the good kernels.

One of Blair's competitors in bringing out lots of new issues is Rooney, Pace, which like Blair is trying to upgrade its image in this new issues boom. One of the biggest Rooney, Pace winners is International Thoroughbred Breeders, up 450% from an offering price that was no bargain. Rooney, Pace brought it public in 1981 for Robert Brennan, president of First Jersey Securities (FORBES, Mar. 1, 1982), which is to reputable brokerage houses what a street vendor is to Neiman-Marcus. Lately Rooney, Pace is even bringing itself public, despite the fact that it has had two scrapes with the SEC and is barred for now from doing business in Wisconsin.

They say that this new issues boom is a quality boom. You wouldn't know it in Denver, home of the penny stock and the fast shuffle. We started with Meyer Blinder. His firm, Blinder Robinson, is sometimes called by the locals "Blind 'em and rob 'em." Meyer is doing nicely, thank you. His suburban office in the penthouse of the new Blinder Building features a full-size indoor swimming pool only steps away from his desk, which is tastefully mounted on a dais. Where, we wondered, are the customers' indoor swimming pools?

What's moving in Denver these days? Not oil deals anymore. Forget all that. It's high tech all the way now. Blinder Robinson has lots of company in Denver. Other local underwriters offer items like Desert Arabian Bloodstock, Inc., "with no significant operating history." Bionomic Sciences International Inc. has a patent on an unproven mouthwash or toothpaste compound for both humans and animals, and a patent application on a fertility swab that determines if a woman is ovulating. Bionomic doesn't have any revenues. None.

Why is all this stuff going public? "Because the public is buying it like hotcakes," says one Denver broker, surprised we even asked.

We turned the conversation to his-

tory, back to the last great new issues boom of 1967-68. That boom bred an interesting character named Charlie Plohn, better known as "two-a-week Charlie," for the fecundity of his Manhattan-based new issues activity. We asked our Denver broker if there was an equivalent of Plohn today. "And why are you looking for the new Charlie Plohn & Co. here," he asked us in turn, genuinely puzzled, "when it already exists back East? Southeast Securities of Florida."

In Miami, you mean.

"No. Hoboken, N.J."

Southeast Securities of Florida is headquartered in Hoboken, with offices in New York, Salt Lake City, Denver and Houlton, Me., three miles from the Canadian border. Houlton, Me.? In the midst of the potato fields?

"That's a good area for our new issues," explains Southeast President Dominick Fiorese, adding that customers up there are "not investment-oriented people, but there's a lot of money in mattresses." Which explains why he can sell them Dominick's Pizza Plus, a two-parlor chain-to-be that hopes to make its money on do-it-yourself pizzas, and Videotron, a video arcade outfit whose officers don't plan to donate a "significant portion of their time to the company's day-to-day activities and affairs."

As for Southeast's brokers, Fiorese confides he likes to get them inexperienced. "They are easier to teach," he says. So easy to teach, in fact, that the New Jersey Bureau of Securities claims that some of them weren't even registered, and a consent decree is being negotiated.

What else is Southeast offering? There's the Diet Institute, which plans to franchise diet centers. Its CEO used to run a fast food franchise. The offering raised \$2 million. The CEO and president each get salaries of \$98,000 a year. There's Big Apple Farms, a racehorse farm without any horses, barns, breeding facilities or even any farmlands: "For the foreseeable future, the company will be an insignificant factor in the Thoroughbred industry."

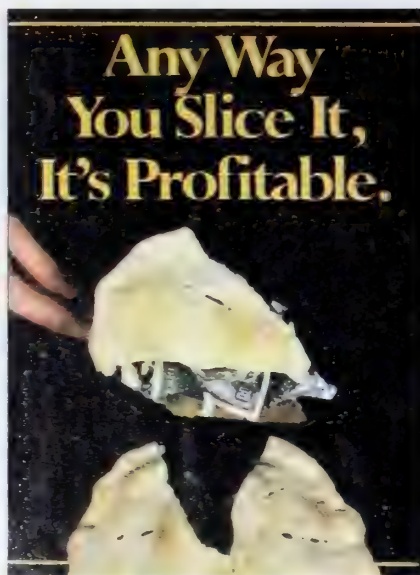
Then there's Enetech, which plans to use the proceeds to acquire coal leases but acknowledged in the prospectus that the coal probably wouldn't be readily marketable because of its low quality. Enetech's

Dominick Fiorese of Southeast Securities of Florida
"There's a lot of money in mattresses."



president and secretary are part owners of a company that is selling Enetech the lease. The title to the land, incidentally, is not clear.

You can go on and on. Southeast Securities has this to say about a company called Meridian Venture Corp: "The company intends . . . to engage in the . . . development and marketing of business concepts and ideas, commercial enterprises, products and services for the public consumer." The executives may have to do all this in their spare time, however, since two of them are also officers in Dominick's Pizza Plus. Meridian's CEO



Southeast promotional brochure
Sweetening the sales pitch.

and president, according to the prospectus, will do the advertising, legal and franchise work for Dominick's.

You need be neither wise nor bold to predict that a good many of these companies will end up in the bone-

yard. Most of them, maybe. And very few, even among the best, will ever justify the high prices that they currently command. It always happens this way.

The Securities & Exchange Commission picked 500 of the thousands of new issues of the 1961-62 new issues boom at random. By 1965, 215 had gone bankrupt, and 60 had simply vanished. Some 125 were alive but operating unprofitably. Only 100 had profits, but of those the SEC felt only a dozen appeared attractive as investments. That's a 2.4% hit ratio.

Roy Neuberger of Neuberger & Berman is 80. He's another of Wall Street's great traders, and, like Larry Tisch, he's giving the new issues market a wide berth. Neuberger says that many of the new offerings in small technology companies and their frequently frenzied aftermarket trading already remind him of the overspeculation rampant in the 1920s and 1961. Note that Neuberger refers to what Wall Street considers the good stuff, not the junk that anyone can see is junk.

Wall Street historian Lucien Hooper, 87, a longtime FORBES columnist and one of the sagest men on The Street, also sees alarming parallels in the way people are chasing the stocks of hot little companies. The present craze for personal computer stocks reminds him of the craze for radio stocks that raged in the 1920's. Crosley, Atwater Kent, Philco, Sparton, where are you now?

Still not convinced that this one will end in a bust like the past new issues booms? Because this time the institutions are doing the buying? Certainly the institutions are playing the good stuff heavily. Our own columnist Tom Murphy confirmed this in the last issue.

It gives us scant comfort, however. Many of these same institutions were convinced in 1973 that you couldn't pay too much for stocks like Avon Products, Polaroid and Disney. If you argued with these institutional geniuses that a mature door-to-door cosmetics company couldn't possibly be worth 40 times earnings, they would tell you that you were naive. The same fellows now call you naive if you question the prices on even the best of these new issues.

Whom the gods would destroy they first make mad. ■

The Postal Service is supposed to provide mail service at break-even prices. Would you believe it's a billion dollars in the black?

Good news department

By Jayne A. Pearl

REMEMBER THE OLD money-losing Post Office? Well, a hefty price increase and a dose of cost-cutting seems to have turned it around. In fiscal 1982, ended Sept. 30, the surplus came to at least \$800 million. In the first six months of this year, the U.S. Postal Service raked in another \$500 million. And this is with conservative bookkeeping methods: There could be as much as \$400 million more tucked away in reserves.

For an outfit with revenues of \$23 billion, this isn't sensational, but it isn't bad either, considering that the USPS has been a chronic moneyloser. Getting into the black required considerable bullet-biting. This included a 33% hike in first-class rates to 20 cents, despite the independent Postal Rate Commission's argument that 18-cent stamps would have been enough to break even. The rate commission was overruled by the courts, which upheld the USPS' right to go to 20 cents.

Instead of rejoicing at black ink, some critics are complaining. A. Lee Fritschler, an ex-chairman of the PRC, says the USPS Board of Governors arbitrarily reduced the profit figure and tucked \$400 million into reserves. They are "embarrassed by their obviously faulty projection" that they would not be able to break even without the higher rate, he says. But such griping grates on most people at a time when the USPS is setting such a good example to other federal agencies.

Presiding over the welcome surplus is Postmaster General William F.

Bolger, who joined the old Post Office Department in 1941 as an 18-year-old clerk when a first-class postage stamp cost 3 cents. When Bolger was appointed in 1978, he inherited seven years of deficits run up since the USPS was reorganized as an independent government agency in 1970. The reorganized USPS retained its traditional monopoly powers but with a mandate to provide lowest-cost mail delivery and still break even.

A quick fix from the hefty 1978 rate increases and some belt-tightening took the USPS into its first year in the black. But inflation, which triggered cost-of-living wage increases, took

USPS back into the red in 1980 and 1981. With inflation slowing, the bucks have been rolling in, and federal postal subsidies are down from almost \$500 million in 1981 to none this year. The inflation drop contributed \$170 million to last year's surplus because wage increases slowed. "We also had more volume than we anticipated, especially in presorted mail—and presorted mail means less handling expense," says Bolger. He boasts that productivity increased 3.6% last year, adding, "And every 1% productivity increase is worth almost \$190 million in cost avoidance."

The \$400 million Fritschler alleges was hidden came from an unexpected, though significant, drop in workmen's compensation claims last year. The USPS Board chose not to book the resulting drop of \$400 million in its liabilities until a full audit determines whether those workmen's compensation claims are permanently inactive or just postponed.

All this improvement has been achieved with remarkably little bloodletting. Throughout both bust and boom years, Bolger actually boasts that not one worker has been laid off. Since reorganization, the USPS is handling 40 billion more pieces of mail a year, with 70,000 fewer people—all through attrition. He says future automation will not require layoffs. Bolger's record in avoiding traumatic firings gives credibility to such claims.

These assurances may ease union anxiety over job security, although with new optical scanners and nine-digit zip codes coming, there may be room for big job trims. The other side of the coin is that the growing surplus may tempt the postal union to insist on big pay increases. With 675,000 employees now on the job, no less than 83 cents of every dollar is spent on wages and fringe benefits. Last year Bolger lucked out. With inflation abating, the CPI-based wage adjustment required only 1 cent an hour, instead of the 26 cents anticipated.

The entire economy will benefit from USPS profitability. For one, postal rates are unlikely to rise as rapidly as in the past, although they could increase in 1985 because costs continue to rise. Still, four years of stable postal rates and all that black ink is welcome. Now, if Congress could only get the rest of the federal government on this kind of businesslike basis. ■



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Oil price controls made a bad situation worse, and Oklahoman Robert Sutton very rich. Thereby hangs a moral.

The rise and well-cushioned fall of Robert Sutton

By Jonathan Greenberg

ROBERT SUTTON, at the moment, is leading a rich, full life. He keeps private jets to take him to and from his enormous mansion in Louisiana, an estate in California and a resort home in Freeport, Bahamas. One of the richest men in America, Sutton, at 50, has a net worth that he admits exceeds \$150 million, and he's the sort of man who enjoys spending it.

Sutton also has the distinction of being in dollar terms the target of the largest criminal case ever prosecuted against an individual by the U.S. Department of Justice. He may even soon have the added distinction of being one of the wealthiest men ever to serve time in a federal prison. His companies got rich, the government has charged, not by finding oil but by turning cheap old oil into expensive new oil, not by chemistry but by fraud. The government came out empty-handed on those charges, and a \$10,000 fine and a five-year prison sentence for obstruction of justice—which he is appealing—have been the extent of Sutton's penance. Not a high price for becoming a centimillionaire.

The chance of a lifetime for Sutton and hundreds of opportunists like him who became oil resellers was conceived by Congress in 1973. Faced with the rising price of Arab oil, the lawmakers decided to prevent U.S. oilmen from doing what OPEC had already done: raising the price of their oil. The price of so-called old oil—that discovered before 1973—would be kept below the price of newly discovered oil or oil from stripper wells. The new and stripper oil would be allowed to sell at higher prices in an effort to encourage production and exploration. These types of oil could be sold

for as much as 6 times the price of old oil. It was a typical situation whereby politicians hoped to gain votes by nullifying the rules of the marketplace.

The government compounded opportunities for mischief by trying to be fair. In order to equalize the cost to refiners of the various tiers of oil, the government devised the entitlements program. The object of this was to lessen any competitive advantage a refiner with access to cheap oil would have over one who had access to more expensive oil. So the companies that purchased a lot of old oil had to pay a subsidy to companies that didn't have access to it. It was a law so complicated and so full of opportunities for ma-

nipulation that it could have worked only in heaven. Enter Robert Sutton and a lot of others like him. By becoming involved in complex trading chains they and their companies were able to obfuscate the lines between the different kinds of oil and thus to change old into new.

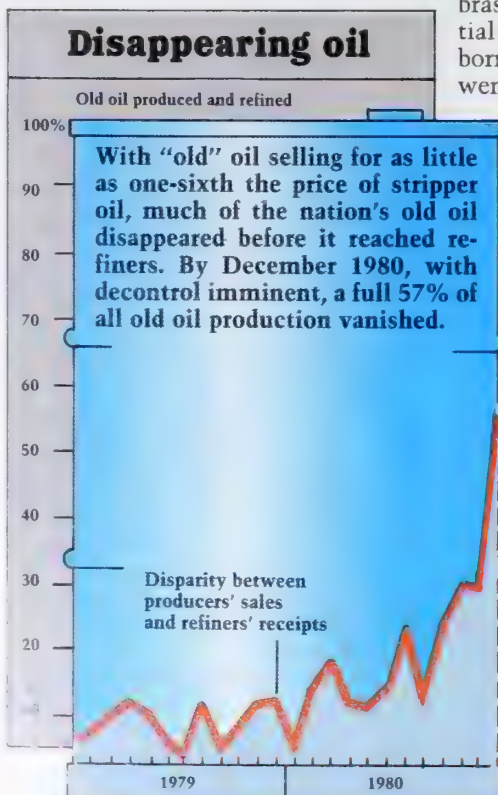
According to congressional investigators, as much as 10% of the nation's domestic production was being miscertified by late 1980, raising prices to the consumer by about \$10 billion. Half this amount probably lined the pockets of resellers like Sutton. The rest, it is believed, went to oil companies, including some of the majors.

Robert Sutton's early career showed little promise of great wealth. Raised in Sapulpa, Okla., he quit college in 1950 to work for 13 years at Sunray DX Oil digging ditches and loading trucks with gas before working his way up to transport billing clerk. In 1963 he left, for reasons not entirely clear, and went into business for himself. He's a man who could and did sell people just about anything. At one point he hawked ballpoint pens out of the trunk of his car. There were \$40 leather-bound Bibles he would front to pastors, cutting them in for a percentage.

He sold computer paper, pipe valves, grain, petroleum products. At one point he worked for Pitney Bowes, where he built a reputation for brashness. Sutton was the quintessential salesman. "I think a salesman is born, not made," he told FORBES. "I went to Dale Carnegie and almost got up there and taught the class."

But pitchmen, no matter how eloquent, rarely get superrich. Prior to 1973 Sutton says he tried his hand in the oil brokerage business, but "it wasn't making any money, so I had to go to work." Sutton claims that by 1974 he was already a millionaire from trading commodities. However, others dispute this boast. Paul McBride, his former attorney, with whom Sutton has had a rancorous falling out, claims that in 1975 Sutton paid taxes on earnings of less than \$8,000.

In 1976, with OPEC in full cry and Congress' trying to make time with the consumer, the oil industry was enmeshed in controls. That year Sutton created his own business, which he called BPM Ltd. With a typewriter, Telex and telephone, he became an overnight



success.

Sutton claims he got lucky—that he was trading foreign oil and that he had a few million barrels of crude in tankers on the water when the price of oil nearly doubled, increasing the value of each barrel by \$10. But the government claims that miscertifying rather than luck was at work.

People who knew him as he was breaking into the big time believe Sutton was led into the business and taught the ropes of the certification game by established oil traders. Somehow the inexperienced Robert Sutton found his way to the Fourth National Bank of Tulsa. Fourth National guaranteed \$150 million worth of letters of credit for Sutton but was unable to provide the federal government records of the transactions during Sutton's trial. Tom Henson, once account manager for Sutton, is now president of the bank.

Paul McBride says, "In my opinion, when Sutton started miscertifying oil in 1976 he . . . was probably the willing dupe of others, netting a quarter a barrel while they made the real money." But, says McBride, Sutton soon got wise and began insisting on a greater share.

Robert Sutton had found a highly lucrative niche in the oil trading business, and his thirst for money was unquenched. "I never looked at myself and felt rich," he recently told *FORBES*. "You never get enough."

In time Sutton operated on a huge scale. After auditing the transactions of BPM and Sutton's other, smaller companies, the Department of Energy established that in less than five years, from May 1976 to January 1981, he bought a total of 109 million barrels of old oil and resold it as stripper oil, and another 47 million barrels of new oil he sold as higher-priced stripper. The DOE also claims that Sutton's companies gave other miscertifications to 21 million barrels. DOE calculated the dollar value of these violations at \$711 million. Precisely how much Sutton held on to, after allowing for taxes, bad investments and employee swindling, is still uncertain. Sources familiar with Sutton's business think his companies had profits of something like \$250 million. One investigator believes \$500 million is closer to the mark.

Whatever the amount, merely huge or truly fabulous, Sutton maintains he did nothing illegal. "They believe a guy can't move that much oil and that I've got to be doing something wrong making that kind of money," he complains. "They can scream all day long



Attorney Sauber was confident the government had a solid case against Sutton, who attended his trial in a wheelchair. Prosecutors established through records and testimony that the business of Sutton's companies hinged upon the miscertification of oil.

about miscertification, but I didn't do it." He adds, "What my brokers did, that's a different ball game."

Sutton contends that he dealt in foreign oil and left the domestic trading to his brokers, most of whom he characterizes as double-crossers. "I had other things to do than mess with that stupid oil," he says. "I let my employees do it, and I boogied."

Despite Sutton's disavowals, his former employees paint a very different picture. None contacted by *FORBES* can remember Sutton successfully trading foreign oil, and they say that he insisted on approving every major transaction his traders made for the company. In court last year Sutton's secretary Kay Johnson testified that Sutton told her, "We didn't buy stripper, we sold it."

The Department of Justice believes Sutton's companies were the largest factor in the false certification business. It has listed 55 resellers who traded directly with him in a three-year period.

But BPM Ltd. never bought from oil producers directly. Sutton admits that he didn't have the contacts for

that. The number of customers in what has been called a daisy chain of oil resellers varied in structure over the years, depending upon how careful the resellers felt it necessary to be. The same barrel of oil would sometimes pass through the books of dozens of companies within a few days, a practice that was known as "layering."

Each step of the way, a reseller would usually take a profit, as well as "gathering and handling" charges (see diagram p. 36). "Some of these transactions were so complex they looked like DNA molecules," says a congressional investigator. "The resellers were just launderers for . . . oil, and the pipelines became bookkeepers for them."

As it became clear that the government was not effectively policing the business, the resellers became more brazen. Some daisy chains shortened because resellers became less worried about keeping carefully layered. What's more, the number of companies willing to perform the dirty work of miscertifying multiplied. It all looked so easy.

By 1980 nearly 600 oil traders were reselling oil—compared with fewer than 20 before price controls. That year, a BPM broker at the time recalls, Sutton complained that the competition was forcing him to settle for 50-cent margins on barrels instead of the old \$2 to \$4.

What were the big oil companies doing while all this was going on? At first, most of the majors were simply selling oil into the daisy chains. But in 1978, according to government investigators, the majors began playing the game. They allegedly would sell old oil to resellers and, in effect, buy it back as new oil or stripper oil. In many cases, the oil never left their pipelines. In effect, the oil companies used the resellers to launder the oil. Gulf, in a countersuit against Cities Service arguing why it didn't want to acquire Cities last summer, asserted that Cities Service made over \$500 million in this manner. Cities Service, in a separate suit filed earlier with the DOE, admitted to engaging in such questionable practices but claimed they were legal.

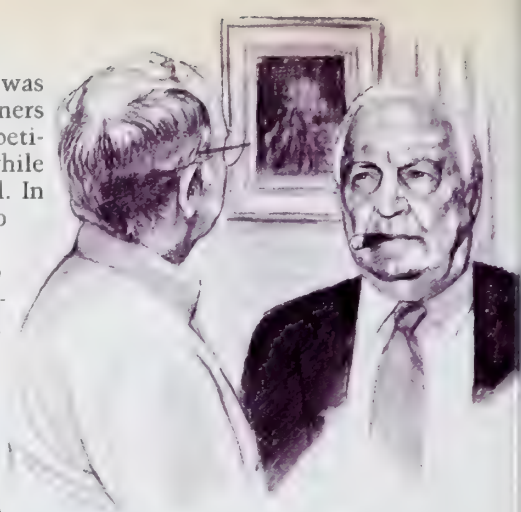
Why should the big oil companies want to do this? Because they were penalized by a clumsy, federally im-

posed entitlements program that was supposed to protect small refiners against their big integrated competitors. Suddenly it became worthwhile to "convert" old oil into new oil. In effect, it became necessary to cheat just to stay even. Mobil Oil Corp., for instance, is fighting to this day to block the last entitlements payouts because it would owe millions, much of it to companies that allegedly miscertified oil. For oil companies in such circumstances, obeying the law could mean huge losses.

Congressional investigators contend that by the end of 1980 1.3 million barrels of stripper was being produced daily in the U.S., yet far more than that, 2 million barrels per day, were being reported as purchased by refiners. At the same time, 700,000 barrels of old oil, worth as much as \$30 less, was disappearing every day between the production fields and the refiners.

So, more and more oil passed through the resellers' hands. In 1976 Sutton's BPM had revenues of some \$5.7 million. By 1980, \$2.7 billion.

You couldn't help but make money on volume like this. Like most re-



Unaware of an FBI wiretap, Sutton tried to get a mobster to stop associates from bringing information to the government.

sellers, Sutton did not need oil traders with experience. One of his traders was a man who had impressed him selling pants at Orbach's in Tulsa. Another had been a car salesman. He paid his traders about \$50,000 a year, and he was known to give bonuses as high as salaries. One year he gave Robert Noland, his favorite trader at the time, a \$256,000 bonus.

During Sutton's trial last year, almost every ex-employee who took the stand was accused of dishonesty by Sutton's attorneys. Before the trial, Sutton sued or threatened to sue almost every employee who had ever worked for him in a serious capacity. A litigious man, Sutton says he currently has over a dozen law firms working for him, and twice that number of lawyers.

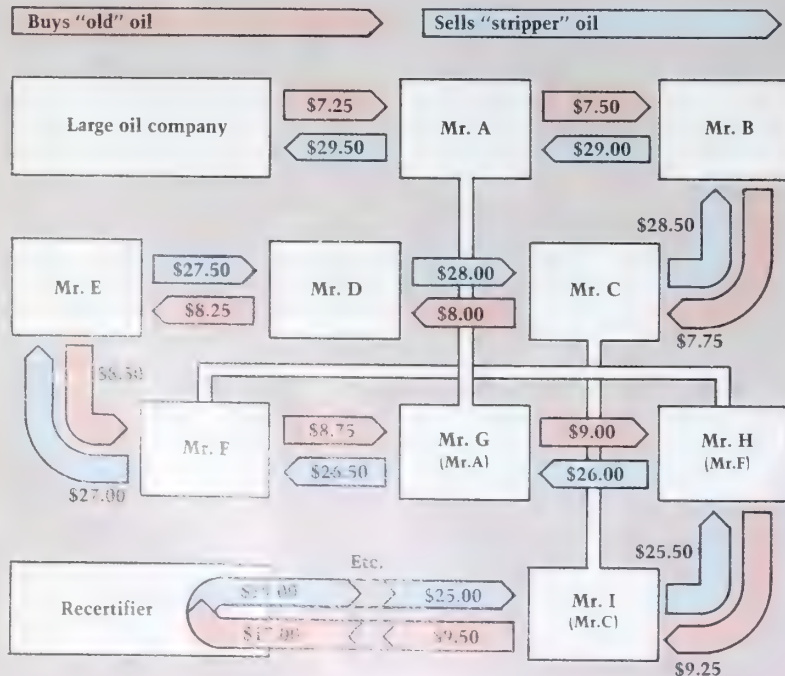
Clearly the litigation had the effect of bolstering Sutton's defense that he was an honest man, betrayed by unscrupulous employees. "My employees were good people when I hired them," Sutton says, sounding like a disappointed parent. "But the temptation got to them. Ninety percent of the people I hired stole from me. Easy pickings, I guess." And even disinterested observers think it likely that a few of Sutton's employees did actually sting him, although not to the extent he claims. Some former employees themselves readily point fingers at others, while absolving themselves of any wrongdoing.

Sutton contends in a lawsuit that his former attorney, Paul McBride, siphoned off millions of dollars of corporate funds and bought a local bank. McBride denies any improper action and filed a countersuit.

It's well known that salesmen are

The miscertification game

By selling old oil into a complex reselling chain like this, an oil company could earn a profit and, by buying back the same quantity of stripper oil, might never have to move a single barrel. The oil is relabeled by recertifier "Mr. X." Various resellers "layered" this act, some coming in and taking profits more than once in the very same chain.





Submerging a videotape camera in a fish tank proved ineffective in recording verbal deals: Sutton couldn't help daring associates to find the hidden camera.

themselves suckers for a good sales pitch, and that the better they are, the more gullible they are. Sutton himself seems to have been taken several times. As a status symbol, he spent some \$8 million buying the old Xanadu Beach Hotel in the Bahamas from Howard Hughes' Summa Corp., although observers believe it was worth far less. And he poured \$24 million into building a refinery in Louisiana now in Chapter 7. He bought a potpourri of other moneylosers, including a plastics factory in Colorado, a synfuels company in Dallas and more.

Yet Sutton had a highly suspicious nature. He would ask employees to snitch on one another and hired a high-powered private detective, Gary Glanz, to head up security. While Glanz denies it, former employees believe that he bugged their phones and had them followed.

Because so many of Sutton's deals were verbal agreements, he installed a videotape camera in a fish tank near his desk. This wasn't very effective, however, because Sutton reportedly couldn't help bragging to associates that they were being taped, and challenging them to find the hidden camera.

In 1979 the Department of Energy handed the BPM case over to the Department of Justice to investigate. The Department's investigation was certainly not helped by the unexplained unavailability of a potential-

ly critical witness. In May 1981 a subpoena called William Johnson, 59, an accountant who had done sensitive work for Sutton, to Tulsa to testify before a federal grand jury. Johnson refused to answer questions, claiming attorney-client privileges, and was found in contempt of court. Johnson appealed, but before the appeal could be ruled on, he was found dead in his office, a single pistol shot in the head.

There was no suicide note or signs of robbery or altercation. Nor did Johnson betray any indication of depression or unhappiness. His business was doing very well, and he had plans

to marry later that year.

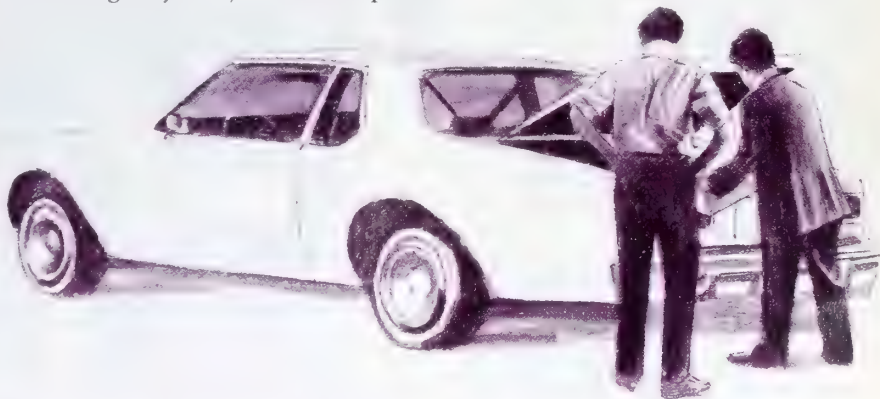
As the threat of government prosecution became imminent, Sutton became more and more interested in foreign oil deals. Some former employees believe that he did so in anticipation of the trial, where he argued that he had concentrated on foreign trading while his brokers handled all the domestic deals.

In 1979 and 1980 Sutton tried establishing large oil deals in Egypt and Ecuador. Sutton sent Robert Noland, secretary and chief trader at the time, and a man named Joe Hegeman to Ecuador. Eventually Sutton sued Noland, accusing him of misusing funds for the deal. Noland denies any wrongdoing and has countersued. One employee says that Sutton told him he lost over \$10 million in Ecuador. Sutton, understandably, was unhappy.

On Jan. 16, 1981, Joe Hegeman, 54, was picked up outside his hotel in Dallas and driven to a field by two men who told him they were being paid \$10,000 to kill him. He offered them \$15,000 to spare him, but they shot him in the head and stabbed him twice. Left for dead, he somehow survived and struggled onto a barbed wire fence, where he flagged a passing car.

The two assailants, eventually convicted, knew Hegeman and had been employed by a dry-cleaning establishment owned by an associate of Robert Sutton's who, according to a government source, had borrowed money from Sutton.

Robert Smith, who was the assistant district attorney in Dallas who handled the case, says that Hegeman was convinced Sutton was behind the attempt on his life. But aside from the



Accountant William Johnson, later found dead, was reportedly glad to get the records he had audited for BPM off his hands. Sutton was convicted of ordering an employee to destroy the records.



Shot in the head and left for dead, Hegeman lived and flagged a passing car.

erie connections, there is no other indication of Sutton's possible involvement. Indeed, Smith acknowledges that there are a number of other parties who might have wanted to kill Hegeman.

Despite Hegeman's ill health, in July 1981 Sutton sued Hegeman, charging him, like Noland, with misusing funds from the Ecuador deal.

In October 1981 a grand jury handed up a 17-count indictment charging Sutton and his companies with willful miscertification, wire and mail fraud under the racketeering statute and obstruction of justice.

Sutton's case was to be part of the Justice Department's campaign against alleged miscertifiers. (Four other resellers had already pleaded guilty in Tulsa and drawn prison sentences of from 1 to 14 months.) Justice attorneys William Hardy and Richard Sauber felt they had a solid case. They had reconstructed the trading records of Sutton's companies and established through the testimony of former employees that BPM's business activity hinged upon the miscertification of oil.

What followed then was totally unexpected. U.S. District Court Judge James Ellison, in an opinion highly critical of the government's handling of the case, threw out all racketeering counts against Sutton and all fraud counts against Sutton and his companies. The court even stated that the evidence showed unlawful miscertification, but held that the prosecution failed to prove "any impact on the Entitlements Program or the cost of petroleum products that is directly tied to the frauds alleged."

All that was left to try was obstruction of justice, based on hard evidence obtained by wiretap and testimony. Sutton had ordered an employee to destroy certain key records and had tried to use a notorious New Orleans

mobster to prevent former associates from bringing important records to the FBI. This the government had little trouble proving.

Even so, Sutton, who suffered a stroke two and a half years ago, is appealing his five-year prison sentence and expects to avoid serving time. "I'm up for parole the first day anyway because of my health," he says. Government sources say he could instead be sent to a maximum security federal penitentiary hospital in Missouri.

The bottom line is that further criminal prosecution of resellers by the Department of Justice will be more difficult. For now, recoveries are more likely to come through civil suits brought by the DOE. One such against Sutton and his companies, scheduled for trial next November, will seek \$1.1 billion, including accrued interest. District Court Judge

Thomas Brett froze all assets of Sutton and his companies last January, pending the end of litigation, and stated that "there is a likelihood of the government establishing improper tier certification." Brett adds that "the evidence has established a strong probability the restitution amount will be a substantial sum of money."

Sutton seems to be taking it all in stride. He and his second wife live well, private-jetting between the Bahamas, California and their 16,000-square-foot Louisiana plantation home. But his big volume reselling days seem to be over. Although his lawyer claims Sutton still trades oil, BPM Ltd. filed for protection under Chapter 11 a few weeks ago. The last broker who worked for Sutton testified that he stopped trading oil on Jan. 28, 1981. That was the very day price controls on oil were lifted in the U.S. ■



Federal Judge James Ellison shocked government prosecutors by dismissing all fraud counts for lack of proof before they ever reached a jury.



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In fact, no detail in a BMW 733i ever suffers from inattention because it's judged 'minor.' And its warranty reflects this obsessiveness. The 733i is backed by BMW's 3-year/36,000-mile limited warranty and a 6-year limited warranty against rust perforation.*

All of which led Car and Driver to conclude that the 733i's "parts and pieces...work so well together they must have been melded in another world."

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What happens when an aging boy wonder returns to the scene of his previous success—and failure? He and the investing public are about to find out.

Sam Wyly's comeback

By Anne Bagamery

WHEN HE WAS ONLY 28, Sam Wyly of Dallas founded University Computing Co. (now Wyly Corp.) and built it into one of the first data processing giants. With characteristic derring-do, he then decided to create a telecommunications network, Datran, to compete head-on with AT&T. His company dropped \$100 million in the brash venture, and under pressure Wyly resigned in 1979.

But Wyly, now 48, was never one to lick his wounds. After a four-year hiatus, he's back in the spotlight again, and in a big way. He has brought public a new software company, Sterling Software, Inc., and intends to take public a satellite-based telecommunications firm called NetAmerica Corp. in the near future. Sterling already has made millions for Wyly.

Over the past four years Wyly has quietly pursued other ventures with little publicity. He had systematically sold off his 40% stake in Wyly Corp.—he now owns less than 2%—and began investing in other businesses. Some have been dogs: Bonanza International Corp., a franchiser of steak restaurants, and Scott Instruments Corp., a maker of electronics hardware, are examples. But Wyly managed one spectacular winner—Earth Resources Co., which he and his brother Charles helped found in 1968, with \$10 million, and later helped sell in a bidding war to Mapco in 1981 for \$400 million. His share of the sale gave Wyly his comeback cash.

So Wyly seems to be doing just fine, although Wyly Corp. still hasn't quite recovered. Even in a robust market for data processing and software services,

the company lost \$7.7 million in 1982, and the stock—once at 155—traded recently around 14.

As for Sam Wyly's new public ventures, his timing couldn't be better. Sterling Software, a Dallas-based umbrella company that mainly buys little, independent personal computer software firms to merge their finances and marketing, appeared in the hot new issues market in June at \$9 a share. Within a week it had run up to \$18 and recently traded for \$23. The Wyls own 1.4 million shares, or 37%. And NetAmerica, which in-



Entrepreneur Sam Wyly
The picture of confidence.

tends to spend \$350 million on a voice and data transmission network for the business market, is in one of the hottest fields around. Once NetAmerica stock is offered to the public, probably later this summer, the Wyls may own as much as 60% of it.

There's one huge question: Can Sam Wyly pull off this time around what he couldn't do last time? Sitting in the opulent offices of Bonanza In-

ternational in Dallas' gleaming gold Campbell Centre, Wyly is the picture of confidence. "Everything is different," he says. "With Sterling, we are leaving the nuts-and-bolts part"—that is, writing software—"to the entrepreneurs who know how to do it and concentrating on what we know best—marketing and finance. And with NetAmerica, why, it's a whole different world out there. The breakup of AT&T is the most significant business development since the breakup of the Standard Oil trust in the early 1900s. Without the biggest corporation in the world monopolizing not only the utility part, but all the support services, everyone has a chance. Besides," he adds, "I've learned my lesson."

The lesson? Don't give up control of your own company. Wyly is the major shareholder in both Sterling and NetAmerica and so has total control of the boards. They are mostly filled with executives in other Wyly-controlled companies.

NetAmerica will try to beat competition from powerful MCI Communications Corp. and Southern Pacific's SPRINT by avoiding their market—residential long-distance service—altogether and concentrating on high-speed, high-density business communications. "MCI predicts it will grow to \$4 billion in sales in five years just by doing what it does," says Wyly. "I don't think they'll need to look to the business market anytime soon, if at all."

Still, nothing is guaranteed. Software companies are bound to face the same margin-shrinking pressures that have plagued small-computer makers and are beginning to bite at makers of computer peripherals (FORBES, July 18). The field of high-speed data and voice communications is already littered with costly ventures.

In fairness it should be said that Wyly has hired good talent for his new companies away from such firms as Texas Instruments Inc. and Communications Industries, Inc. His greatest precaution, however, may lie in going public while investors remain infatuated with technology. Raising money that way is a lot easier than trying to borrow it—and almost infinitely cheaper. While the new issues boom lasts, that is. Concedes Wyly: "I certainly remember what happened in the 1970s, and I'm sure others do, but they don't care much." Maybe they should. (*For more on new issues, see "Doesn't anyone remember?" p. 31.*) ■

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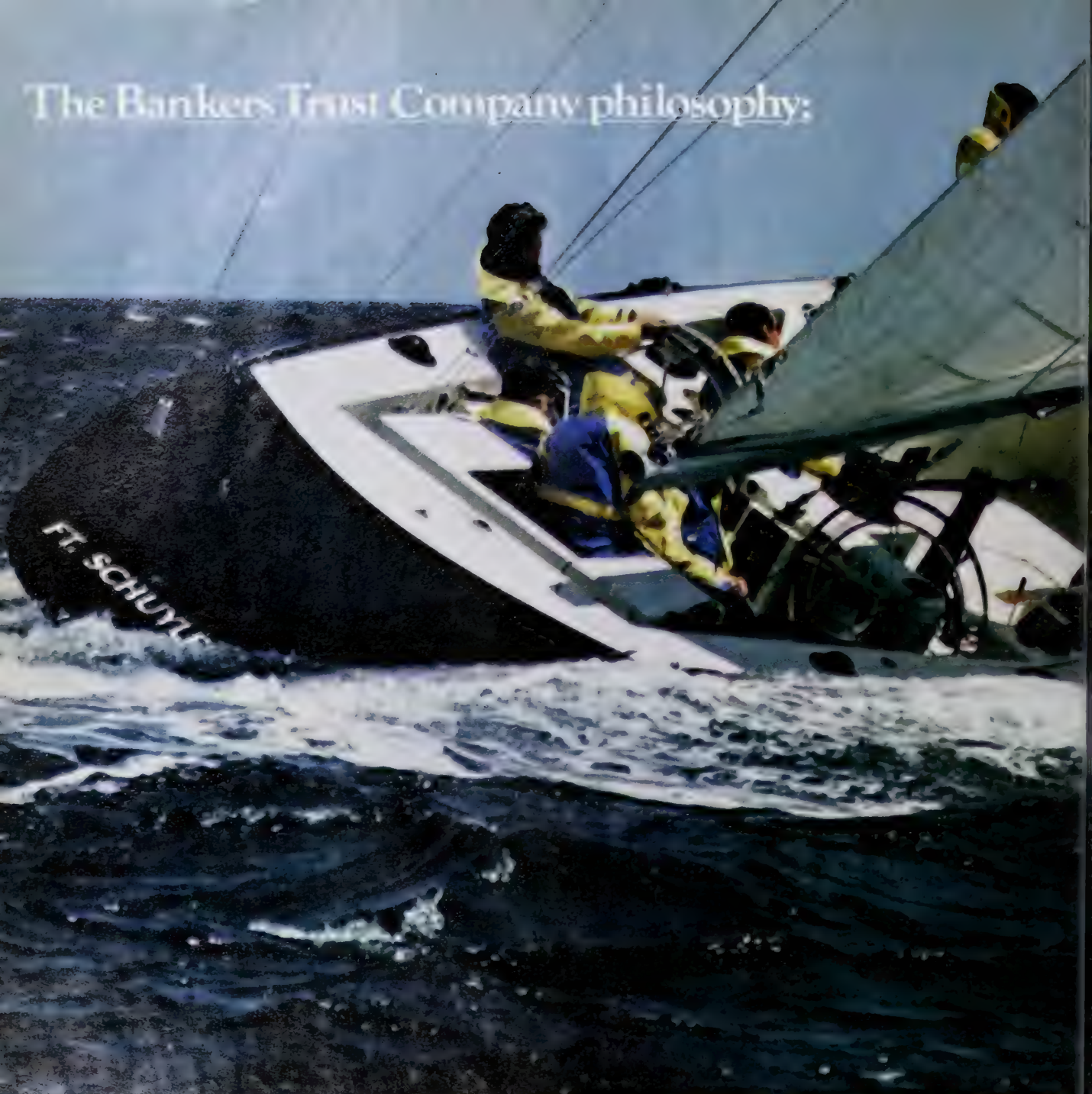
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"Financial products have finite lives," says Security Pacific's Frank Cabouet. A good example is traditional banking.

Pacific securities

By Ben Webberman

ONE OF THE fastest-growing and most diversified securities firms is not on Wall Street but in Los Angeles. And its name isn't Shearson or Merrill Lynch. It's \$37 billion (assets) Security Pacific Corp., which also happens to own the country's tenth-largest bank.

Security Pacific's growing empire of wholesale and retail stock and bond brokerage, funds management, investment banking and other financial services will account for more than a quarter of the \$260 million or so in net earnings projected by analysts for the holding company this year. Moreover, return on assets last year was 1.57%, almost three times the rest of the organization's, and in the first quarter, net margin on assets, at 2%, was four times the return from domestic banking.

Quite a transformation for what used to be a run-of-the-mill big bank. What happened? "Financial products have finite useful lives," says Security Pacific's vice chairman, Frank V. Cahouet, the architect of the restructuring. "Bankers who don't look for new products will be run out of the competition." What Cahouet means is that the bankers' traditional game—low-cost demand deposits to finance lucrative corporate and agriculture lending—is disappearing. Low-cost deposits are an endangered species these days, and commercial paper has cannibalized the lending market. The financial supermarket beckons.

Meanwhile, the Glass-Steagall Act prohibits banks, of course, from buying stocks for the bank's portfolio with bank depositors' money. But it doesn't prohibit them from buying stocks for customers. Indeed, almost every big bank has diversified across

that once unbreachable wall in recent years, but none so extensively as Security Pacific.

Cahouet and Executive Vice President Robert H. Smith began building a diversified financial business in 1978. At that time, just about all the bank could claim under that rubric was its old-fashioned trust department, a genteel moneyloser presiding over a clutch of pension deposits and the estates of little old ladies in Beverly Hills. Since then, Security Pacific has acquired or developed in-house:

- Fifteen retail stockbroker offices in seven states, including sizable discount houses in Pasadena, Memphis and Ft. Lauderdale.

- Three wholesale bond houses—RMJ Securities, the country's second-biggest government bond broker; Clifford Drake & Co., Inc. in municipals;



Security Pacific's Frank Cabouet
No turning back.

and Chapdelaine & Co. Corporate Securities (renamed KMS Securities), all of New York.

- A 29.9% position in Hoare Govett Ltd., one of Britain's largest brokers.

- Ralli Brothers, a private Swiss bank, through which Security Pacific offers portfolio management and investment counseling in Europe.

- An investment banking group that was started in-house and has grown through acquisition.

- A group of 16 common trust funds managed by SecPac.

- A New York State-chartered trust company, Security Pacific National Trust, which does wholesale government securities clearing for the parent as well as other dealers.

- A wholesale discount brokerage firm. More than 100 banks have signed up to use Security Pacific Brokers Inc. as the discount broker their own customers will call. Security Pacific is going after S&L business, too. (The SEC prohibits broker-dealers from splitting fees with S&Ls but not from "supporting" thrifts' marketing efforts—"soft dollars" to the brokerage trade.)

Security Pacific has just been accepted for its own seat on the New York Stock Exchange. It's not unheard of for a bank to sit on the Exchange. BankAmerica Corp. bought a seat when it acquired discount stockbroker Charles Schwab, and Brown Brothers Harriman and Morgan Guaranty Trust were grandfathered into theirs in 1933. But Security Pacific believes it is the first big bank to apply *de novo* for New York Stock Exchange membership.

So far, wholesale bond operations have been the biggest part of the bank's nonbanking activities. But there were qualms at the outset. "We closed the deal to buy RMJ in May of 1982, the day after the problems of Drysdale Government Securities and its costly trades and repurchase agreements with brokers were made public," recalls Smith. "There was a big question as to whether brokers could continue to do business without revealing both sides of every transaction." Without secrecy, of course, brokers lose most of their usefulness, and most of their orders. Security Pacific went ahead, and events vindicated the decision to go ahead with the acquisition. This year wholesale bond operations will provide substantially more than last year's \$8 million net profit through such big transactions as RMJ's one-day brokering of \$1.3 billion in two-year Treasury notes in early June.

The 16 common trust funds—like

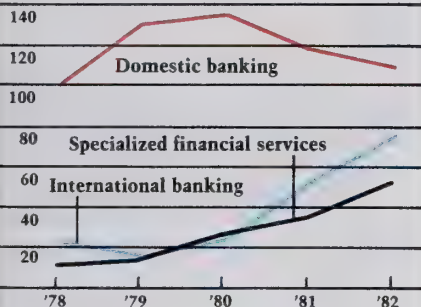
mutual funds but available only to trust customers—include two that have performed as well as the top 5% equity funds in A.G. Becker ratings annually since its formation in 1981. Security Pacific's Fund E, which concentrates on small and medium-size growth companies, had a total return of 61% last year and 35% so far this year. Fund G's emerging-growth-company portfolio gained 86% last year and has gained an eye-popping 78% in this year's first half.

The long-term implications of all this are obvious. The firm's Specialized Financial Services division has grown at an annual rate of more than 40% for the last five years, largely through acquisition but also through rapid internal expansion. Even at a fraction of that rate, nonbanking

Steady reports

Many of SecPac's securities businesses, including investment banking, are in the Specialized Financial Services division. The commitment to the business has been rewarded with steadily higher earnings.

Net income after taxes (\$ millions)



eventually would outstrip banking. Cahouet contends that won't happen. "It's not unrealistic to expect the return on assets on domestic banking to increase from its current 0.5% to perhaps the 0.75% of 1979," he says. "That would add half as much again to the banking profits."

But there will be no turning back, no matter what happens on that score. Security Pacific is likely to become more broker and less banker, all the time. Says Smith, "There's a whole array of profitmaking operations associated with wholesale and retail discount stock brokerage—margin loans, fees for lending stock to short sellers, handling paperwork for purchase and sale transactions. And, of course, the goodwill of brokerage customers, who may be inclined to open a banking relationship. Few banks have really thought stock brokerage through." ■

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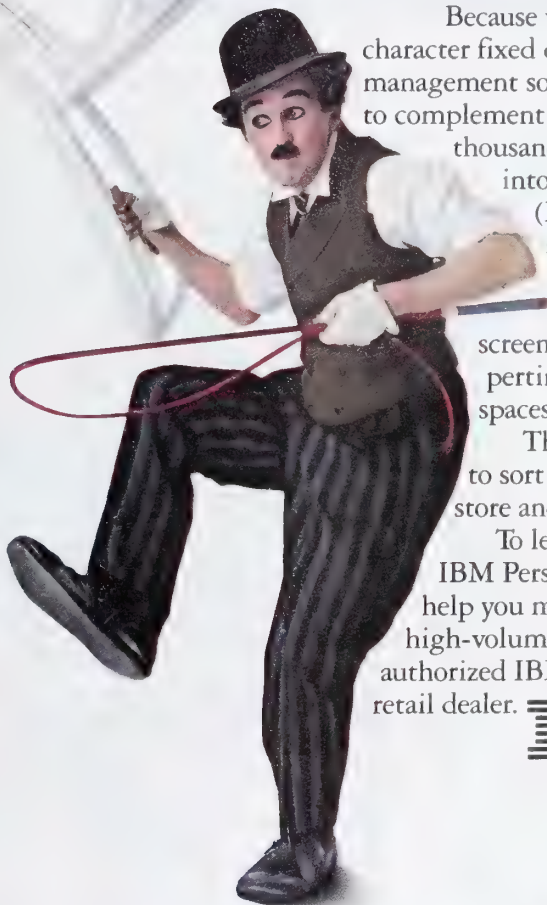
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Expensive electricity helped drive industry out of the Northeast. Will cheaper power persuade it to return?

Stalking smokestacks

By Carol E. Curtis

IF YOU ARE INTERESTED in why industry left the Northeast, all you have to do is look at industrial rates for electricity. In Philadelphia, for example, the typical industrial plant now pays about 6 cents per kilowatt-hour, nearly 30% more than the national average. In New York City the rate is more than double the rest of the U.S. Northeast utilities simply passed on ever higher oil costs to their customers, while factories shut down or moved to the Sunbelt.

Times have changed. With world oil prices flat or falling and deregulated natural gas leveling off, it's a buyer's market once again. And some Northeast utilities that overbuilt in the Seventies and are stuck with huge amounts of spare capacity are slashing prices to try to get those departed smokestacks back.

For example, since July 1 Philadelphia Electric Co. has offered to cut its standard industrial rate by 20% for the next ten years for any company that relocates a plant in its service

area—or for existing plants that expand enough to add at least six new jobs. The Narragansett Electric Co., a unit of the New England Electric System, is proposing the same deal in recession-plagued Providence, R.I.

That kind of discounting may be a way of life in the rag trade, but it's practically unheard of in the electric utility business. For years utilities have been asking state regulators to raise rates to pay for additional capacity and rising fuel costs. Now the capacity isn't needed and fuel costs are no longer rising.

Like oil companies, the utilities were caught by surprise. Philadelphia Electric is a good example. It will soon start up a new 1,100-megawatt nuclear plant, designed when annual demand growth was projected at 6%. Instead, demand in Philadelphia is flat and is likely to remain so. "Manufacturers of almost anything—we definitely want to bring them back," says Philadelphia Electric spokesman Peter Byrne.

Narragansett, which until recently had one of the highest electric rates in

the country, is singing the same tune. As its rates rose, many of its best customers—companies like Narragansett Brewing and United Wire—pulled up stakes and left. Now, with a reserve margin of nearly 40%, the utility is eager to put the extra energy to work. "We've got enough excess power that many new companies can plug in without difficulty," says a hopeful utility spokesman. The utility has also shifted plants from oil to coal, with the result that fuel costs have dropped substantially.

Will the strategy work? The only precedent is at New York's Consolidated Edison, whose electricity is the most expensive in the continental U.S. In 1981 Con Ed began offering discounts to companies brave enough to locate in blighted areas like the south Bronx and parts of Brooklyn.

Results: modestly encouraging, says Assistant Vice President Robert Stevens. Some 1,822 new commercial and industrial customers, mostly small businesses, have set up shop in the areas where power is discounted.

But New York is something of a special case. A more telling example may be Iowa Power & Light, which recently proposed a discounting scheme only to have it turned down by the local regulatory commission, which claimed it lacked authority to grant favored treatment to some customers at the expense of others.

Philadelphia and Narragansett say they will be able to offer the discount without raising rates to other customers. In fact, argues a spokesman for Narragansett, if the program is a success, rates may ultimately be lower for all customers, since the utility's power will be used more efficiently.

Whatever the outcome, for the first time in memory utilities can afford to be more concerned about attracting business than about raising rates. That has to be counted as a plus. ■



A Forbes Special Advertising Supplement

Freight Transportation: A Revitalized Industry Emerges

Written by Dr. Russell C. Cherry, Theodore V. Heuchling,
Peter J. Metz, Dr. P. Ranganath Nayak and
Dr. Richard C. Norris of Arthur D. Little, Inc.

Two fundamental changes that will take place over the next 10 years are key to sorting out the present dislocation and turmoil wracking the freight transportation industry. The first of these is the "productization" i.e., the collaboration between enlightened carriers and shippers to develop a broad range of transportation service products tailored to the specific needs of individual large shippers and to classes of smaller shippers and shipments. The second will be a restructuring of the carrier industry, probably into a relatively few major, multimodal national firms and a large number of smaller regional and specialized firms.

Challenges to Carriers

W

ith the possible exception of overnight parcel delivery, transportation is largely a demand-driven industry. Carriers cannot create significant freight increases overall by reducing prices. They compete primarily to capture the freight that macroeconomic conditions generate. Thus, gains and losses among carriers must come largely at the expense of each other—a zero-sum game. Shippers, by contrast, have opportunities to become net winners as improved transportation services are offered at lower prices.

Many carriers, especially motor and air, have been faced with the immediate dilemma of choosing between playing things safe for survival and taking advantage of opportunities for expansion. The recent recession has generated

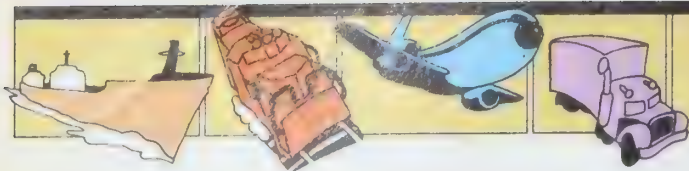


excess capacity just when deregulation has opened up the competitive arena. Accordingly, carriers have been concerned with such marketing issues as competitive pricing and aggressive discounting to capture freight, innovations in freight contracts and package deals, and such financial issues as whether or not to invest in the additional transport capacity, facilities and manpower required to expand their routes.

As opportunities open up to purchase surplus used trucks, trailers, aircraft and other equipment,

carriers must decide whether to avail themselves of the bargain prices or to buy more productive, but more costly, new equipment. New aircraft, for example, are more fuel-efficient but far more expensive, and near-term fuel price trends are unclear. As for motor carriers, recent legislation permits wider, longer and twin trailers, which can provide greater productivity not available from bargain surplus equipment.

While these immediate questions are foremost in the minds of many carriers today, ultimate success will depend on the resolution of longer-term issues. As transportation product offerings become more varied and complex, marketing effectiveness and operational efficiency will be crucial to success in the competitive environment. A successful operator will need a thorough knowledge of customer service needs, of the competition's behavior and capabilities, of the costs of providing additional services, and of how new technologies and operational methods can be used to perform services at lower cost.



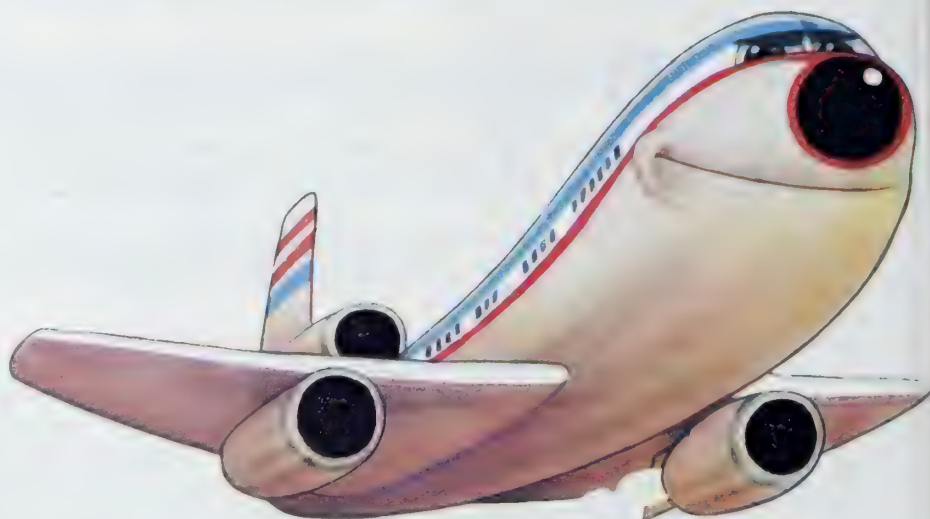
Carriers must:

- Design the right service products for the markets they are positioned to serve.
- Provide these products at prices that are competitive but adequate to cover costs.
- Maintain and improve product quality.
- Improve productivity in all operational areas.

They will have to do all of these things all of the time to stay ahead of the competition.

Leaders in carrier organizations are going to be forced to devote more attention to up-to-date operating know-how. Accurate cost analysis will be essential to determine which services can be offered profitably. Cost engineering can identify ways to achieve true cost reductions that can produce profits from previously unprofitable services. Tight quality measurement and control methods will help carriers achieve maximum performance in the face of changing definitions of quality, which traditionally has meant level of performance (e.g., speed or transit time). In the new environment, quality is measured in terms of how precisely the promised service is actually executed. Some measures are:

- The reliability of the service: the correspondence between the advertised and actual transit time.
- The availability of the service: whether the capacity is available when needed and as promised.
- The responsiveness of the carrier: how quickly and how well the carrier can tailor its services to a shipper's changing and emerging requirements.
- The frequency and magnitude of loss and damage: when loss occurs, restitution should be prompt; but restitution alone is not enough—shippers do not want losses.



Railroads thus far have been spared the sudden, intense price competition that has wracked motor and air cargo carriers. Consequently, they may have gotten a better jump on the longer-term operational improvement opportunities derived from deregulation, as for example, a more attractive investment environment. Some railroads are shifting toward shorter, more frequent

trains and thereby reducing through-transit times. They are investing in automated switchyards; in locomotives using lower-cost fuels, including electric power from coal; and in lighter-weight rail cars. Moreover, they are looking at ways to improve productivity through R&D on improved track maintenance, automated inspection and improved aerodynamics.

Lighter-weight aluminum cars and better inter-modal vehicles are beginning to appear. One example of a superior inter-modal vehicle is the Roadrailer,[™] developed by Bi-modal Corporation. This vehicle was designed with the running gear of both a truck trailer and a railroad car; it is capable of riding directly on rails or traveling the highways.

Carriers must become sophisticated, effective marketers offering a range of innovative service options to meet shippers' needs. Those carriers that fail to look beyond their traditional modal boundaries are apt to find their business eroded by aggressive competitors from other modes.

Thanks to deregulation motor carriers no longer are limited, except perhaps by choice, in the routes on which they operate and in the commodities they can carry. Railroads are no longer limited geographically by their rights-of-way, nor are they barred from owning trucking lines. Ocean car-

Robotics in Transportation

Robotics experts suggest that service industries like transportation will be among the last to be penetrated by robots. However, there is little doubt that robots are coming in transportation, or that they will have a major impact on labor and equipment productivity. Among the areas where robots may have potential are the following:

- Coupling and uncoupling of freight trains
- Cleaning of vehicle interiors
- Manufacture of containers, trailers and railroad cars
- Loading and unloading of hazardous cargoes
- Loading and unloading of bulk materials
- Sorting of freight in truck and air terminals
- Railroad track maintenance

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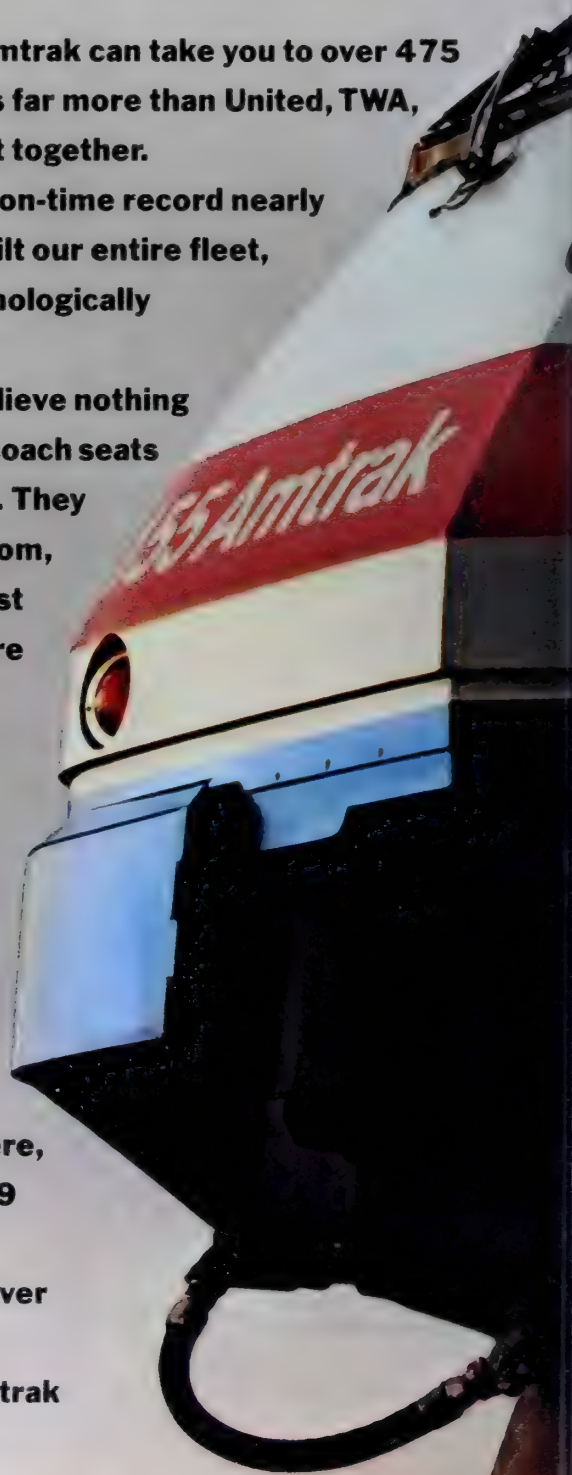
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riers, including container ship operators, can now offer through-rates from inland origin to inland destination. Air cargo carriers now are limited only by the commercial zones that define surface pick-up and delivery areas. Even Pan American World Airways, Inc., formerly restricted to international operations, is now free to compete domestically. And the Flying Tiger Line is now soliciting business from shippers.

Deregulation, moreover, is providing impetus for innovative carriers to develop meaningful price/level-of-service alternatives. An example of this is Conrail's pioneering discount rates for backhaul loads. Competing carriers can also provide a similar service by quite different means, as in the case of the innovative alternatives being developed for overnight parcel service.

We can expect to see a further

mixing of the service-product offerings of formerly distinct modal operators, with less emphasis placed on which mode will be employed to accomplish these services. Motor carriers already are shifting to a greater reliance

on piggyback for line haul, railroads are branching out into trucking and air delivery operations, and container ship operators are competing with both motor carrier and rail for transcontinental freight.



Challenges for Shippers

Chessie's Piggyback Innovation

Chessie, a large Eastern railroad, has moved beyond the provision of regional or East Coast service and has expanded its scope to serve shippers throughout the nation. Based near Philadelphia, Chessie's subsidiary, Chessie Motor Express (CMX) relies exclusively on subcontract carriers and owner-operators to provide its trucking services.

CMX features door-to-door transport of truckload volume using a combination of over-the-road and rail piggyback at very competitive prices. Chessie's strategy is to offer its combined highway/rail transportation services nationwide and not just in the Eastern and Midwest regions served by the railroad.

Shippers, with only one point of contact and only one bill of lading, are able to provide efficient and cost-effective deliveries to customers.

While shippers and the consuming public will be the ultimate beneficiaries of change and innovation in the transportation industry, not all shippers will benefit equally—especially in the near-term. Those which quickly comprehend the benefits of a flexible, competitive and innovative transportation system will benefit most. They will gain advantages that will be difficult for competitors to overcome when the system becomes more stable.

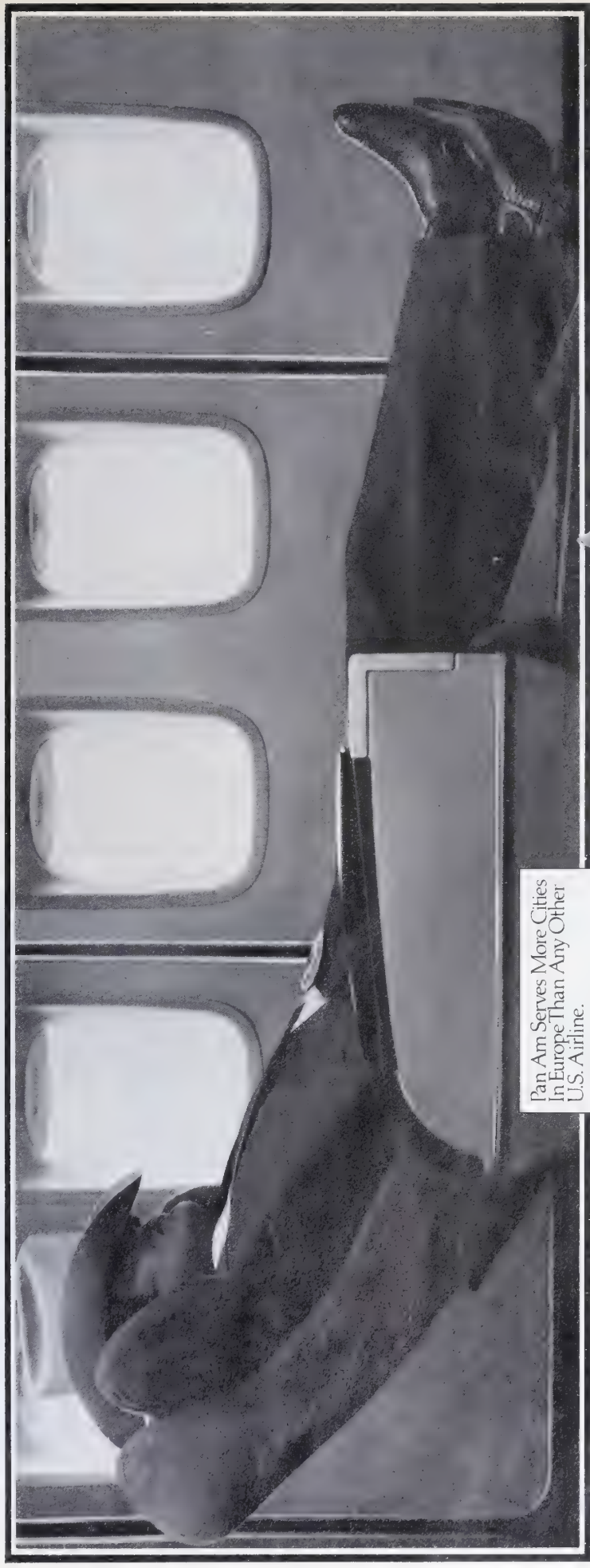
Shippers are having difficulty in choosing intelligently among the increasingly rich mix of carrier service/price options. They have seldom collected and analyzed data on transit times and other service features; there were few efforts to measure and control the level of service actually received. The development of electronic data interchange (EDI) among shipper, carrier and consignee now enables a shipper to collect data routinely, and to measure and control service quality.

Many shippers will encounter

difficulty in choosing among service/price options for another reason. For the most part, their traffic management is handled by narrowly oriented specialists who are well versed in transportation law and regulation but somewhat isolated from general management. Such specialists typically have been charged with reducing direct transportation costs rather than with improving the cost-effectiveness of their company's overall logistics system. More often than not, these specialists have dealt with carriers primarily as adversaries, haggling over rates in an effort to reduce direct shipping costs.

Among the more progressive shippers, traffic management is giving way to logistics management. The latter, in turn, must be integrated with the rest of the business enterprise if comprehensive trade-offs are to be made. For example, a timely response to customer orders can be achieved by the most economical mix of fast order entry and processing, fast production response, product

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"We're ready to go up against any other carrier—including trucks with Conrail's modern freight transportation system."

— L. Stanley Crane, Chairman, Conrail

"Here's why I can make this statement: Conrail is offering shippers some of the most competitive rates and innovative services on rail or highway today. The reason: Railroads are far less regulated—and high time. We can now set our prices and tailor our service to meet your individual needs.

"Please take a few minutes to read on, then let's talk business."

"Now we're giving trucks a real run for their money, even on short-haul routes."

"Conrail is beating the trucker at his own game. Our better cost control means we can give you prices that are much less than truck rates on grain and chemicals and many other commodities for distances of 300 miles or less—even under 100 miles in some cases.

"Our prices allow a grain broker to buy surplus grain in one market, move it by Conrail at these low rates to another market hundreds of miles away, and still make a good profit."

"These rates and efficiencies apply to many commodities besides chemicals and grain, such as minerals, petroleum and vegetable oils, as well as to processors and sugar refiners. And they apply whether you have one car or one hundred."

"Conrail's prices are not only competitive, they're more flexible."

"If you ship iron or steel coils, you save when you move them on Conrail. If you ship alcoholic beverages between the Northeast and the Midwest, you

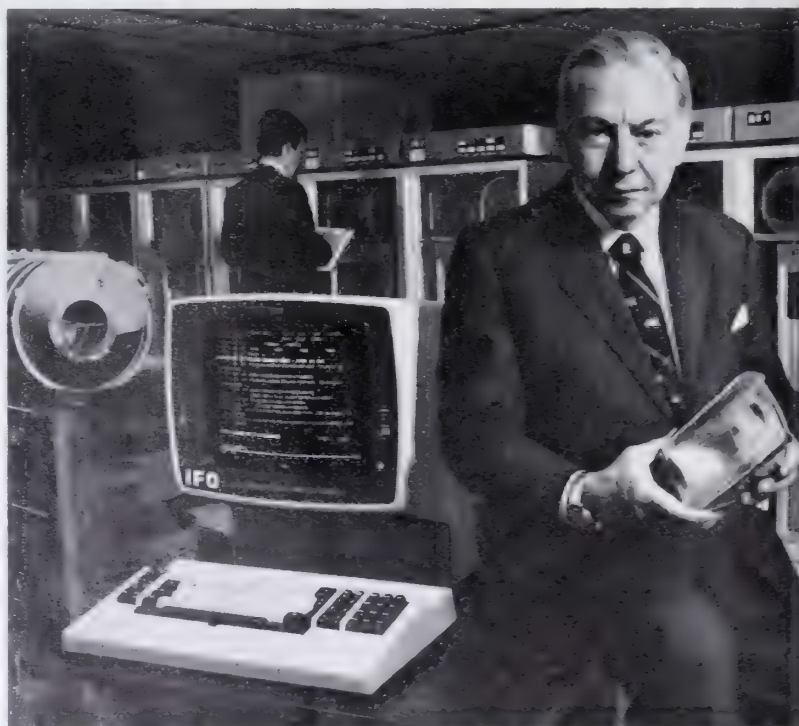
save up to 30 percent compared with trucks.

"And through our piggyback wholesalers—our Volume Shippers—we also offer you very attractive rates to get your products off the highway and moving by piggyback.

"Coal customers using our new coal export facility at Pier 124 in Philadelphia appreciate our flexibility. They can make a reservation months in advance to export coal and be guaranteed a rate and a berth on the day and the time specified.

"What's more, until October 1, 1983, we'll guarantee to load vessels at an average rate of 15,000 tons per 24-hour period—or pay, up to certain limits, a vessel detention fee of \$335 per hour."

"Coal-burning utilities requiring long-range service and price commitments can also enjoy a new freedom from uncertainty, again thanks to Conrail's willingness to make rate and service commitments



Conrail has one of the most sophisticated computer data centers in the country. Whatever you ship, from headlamps to hardware, our computer services, competitive prices and innovative freight services give you the best price and service combination in the marketplace.

not only for today, but next year as well.

"In addition, we're willing to give utilities greater flexibility through a flat monthly fee, plus a fixed transportation charge per ton of coal moved, regardless of where they buy their coal on Conrail."

"We control every car with one of the most sophisticated computer data centers in the U.S."

"You could have the most competitive rate and it wouldn't mean a darned thing nowadays if you didn't have the most timely data processing information available to tell you where your car is at any time, and any place on our system. You get them both with Conrail.

"You also get a completely computerized system designed to control car supply based on your forecasts of your needs. As a result, when you call your local car reservation clerk, you're sure to get your car when you want it, where you want it.

"Furthermore, our marketing experts can use our extensive information system to quickly analyze various rate, equipment and service combinations and give you the information you need to respond to today's rapidly changing marketplace."

"Our labor unions are helping us to be more competitive."

"We've entered into a new era of cooperation with our labor unions. They have given us the kind of flexibility that leads to great service, such as Conrail's new Mini-train for General Motors.

"GM required overnight service from Kalamazoo, Mich., where auto parts are consolidated, to Fisher Body and Oldsmobile in Lansing, 118 miles away. To eliminate stocking inventory at the plant, GM required that the parts be delivered "just in time" for the first morning shift—not early, not late.

"Auto parts that once moved by truck are now handled by Conrail overnight.

"One very big reason behind our ability to adapt to the needs of GM, in addition to our price and service package, is an agreement by Conrail's labor unions to improve productivity on the Mini-train by eliminating a crew change stop. Productivity improvements such as this are the key to making us more competitive in today's deregulated marketplace."

Kalamazoo, 6 p.m.: Conrail Mini-train leaves for Lansing with auto parts needed by GM for next day's auto production.

Lansing, 6 a.m.: Monday through Friday, parts shipped overnight by Conrail Mini-train already placed on GM's dock before start of first shift.

"For the second year in a row, Conrail has been profitable."

"Conrail showed a \$39 million operating profit in 1982. This financial performance, I'm pleased to say, is even better than our 1981 record, which was one of the most dramatic improvements in American corporate history!

"REASON: Conrail can now make price and cost decisions like any other business—and do it in a rapidly changing economy.

"We look forward to continuing this progress in 1983. We have a plant that is in superb physical condition. Our tie and rail renewals are up to snuff. The supply of cars and locomotives is the best ever. And to ensure continued good service at low cost in the future, we just ordered 100 very efficient new locomotives.

"At Conrail, we have a modern freight transportation system that is second to none."

"If you have a problem, please write to me."

"Last year, we promised you competitive prices, innovative service and on-time delivery. What you just read demonstrates how seriously we took our commitment. And I promise you more of the same this year. But if we ever fail to live up to this promise, I want to know about it *personally*.

"Write to me at 6 Penn Center Plaza, Room 1040C, Philadelphia, PA 19104.

"I'm fighting to get your business—and I'll fight to keep it."

L. Stanley Crane

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Please send the "Shipper's Information Kit" and other materials that will help my business.

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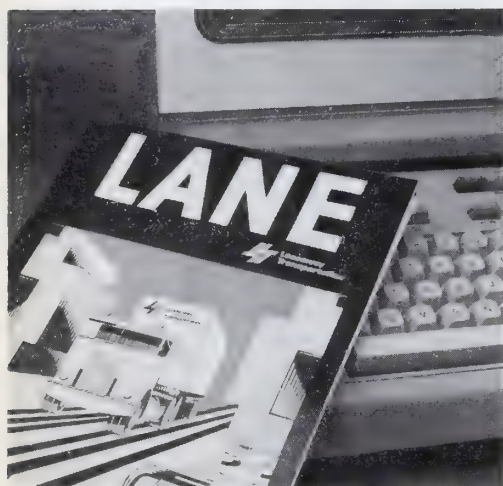
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It's unique in the business and so is this offer: our experts will develop a LANE profile for you, free of charge. The LANE program rapidly and accurately identifies the inherent transportation balances within a complete distribution network. These balances not only include simple fronthaul/backhaul pairs, but more complex configurations as well.

All you do is provide your Leaseway salesman with your freight flow data. The LANE system processes the information by applying the latest in computer technology. Its combination of sophisticated, yet practical capabilities will help you:

- Identify balanced lanes as well as difficult imbalances—some obvious, many less apparent.
- Better understand lanes in terms of shipment type, size, and frequency.
- Evaluate cost/benefit of alternative transportation methods and modes.
- Perform mileage-based analyses.
- Analyze the effect of reconfiguring transportation networks.
- Evaluate loaded mile efficiency.
- Investigate the opportunities for matching your imbalances with those of other companies.

From this information, your Leaseway Transportation salesman will formulate a plan of action.

This means you can spend more time implementing the right decisions and less time investigating infinite possibilities. And we're confident your LANE profile will show you one more thing: how profitable it can be to do business with us.

If you're impressed with the savings from our profile, we're certain you'll be interested in the next steps of our cost-cutting program. But you can't start saving until you call. So take advantage of this unique offer. You have absolutely nothing to lose. Contact Tom Devine at Leaseway, 800-321-8970. In Ohio call 216-464-3300. We put good ideas into motion.



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stocking (possibly in the field) and fast transportation. But the cost of timely response must be balanced against the value of timely response. The factors involved are freight costs, storage and handling costs, production costs, inventory costs, customer service, market share, revenues and profits. The question is not simple, but the answer may be crucial.

The new logistics manager must also understand what carriers can and cannot do for him and how carriers can provide opportunities for savings. He must be fully aware of how his actions as a shipper (i.e., the timing of shipments, how they are packaged and consolidated, the characteristics of loading facilities, etc.) can affect the carrier's costs. With the rigid pricing structure of a regulated transportation environment, shippers had little incentive to tender their freight to carriers in ways that minimized carrier costs. Today, however, the astute shipper will work with carriers to see what joint actions might be taken to rationalize operations and produce overall system economies that lower freight costs for the shipper and produce higher profits for the carrier.

For example, an East Coast manufacturer with many small shipments to make to West Coast customers has several options. One is to tender this cargo piece-meal to a less-than-truckload (LTL) motor carrier for pick-up and sorting, along with other freight, into full trailers for over-the-road movement and West Coast breakdown and delivery. A second is to accumulate consignments until a full truckload shipment can be made directly to a West Coast consolidator for breakdown and delivery at one time. Another potential area for shipper/carrier cooperation is the institution of "standby freight services" for freight with less urgent delivery timing. The key to making any arrangement work is the willingness with

which both the shipper and carrier mesh their operations to achieve mutual support.

Unique service arrangements with carriers are not the only ways by which effectively managed companies can take advantage of a broader range of transportation service options. Even with more conventional arrangements, shrewd shippers will seek economies by limiting their shipments to fewer carriers. Other shippers are reexamining their use of private trucking with an eye to expanding such operations and possibly setting up trucking subsidiaries, hiring owner-opera-

tors or taking other actions formerly limited to established common carriers.

Freight tariffs are becoming so competitive and volatile that shippers are hard-pressed to keep up with the changes and take full advantage of them. Fortunately, specialized computerized tariff data service bureaus can be effective resources. The abolition of the rate-making authority of motor carrier rating bureaus, the simplification of class rate-structures, and the greater role of computers in transportation will lead to formula-based tariff systems. Such systems will simplify carrier cost comparisons by enabling examination of key cost coefficients rather than a wide variety of individual rates.

Shippers, carriers and consignees are increasingly using computers in their transactions. In the grocery industry, for example, the Uniform Communication System (UCS) now permits purchase orders, invoices and shipping information to be transmitted directly between the computers of manufacturers and distributors. As the benefits of EDI become more widely appreciated, shippers will demand it of their carriers.

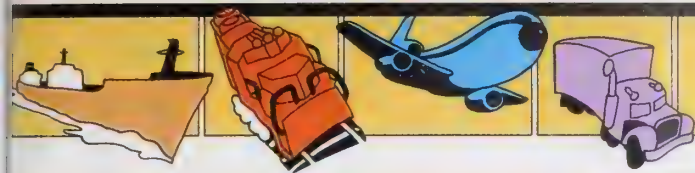
Future Trends in Freight Transportation

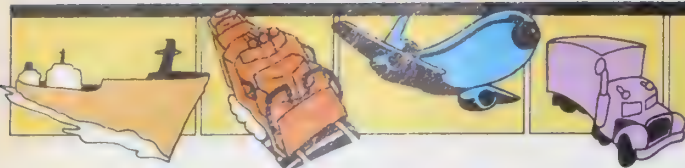
The freight transportation industry of the future will consist of nationwide, multi-modal megacarriers and specialized carriers.

The breeding ground for megacarriers most likely will be transcontinental mergers of cash-rich rail carriers. Megacarriers, the ultimate in transportation conglomerates, will provide nationwide and international services over the full range of the transportation-product spectrum.

Initially, megacarriers will integrate the marketing functions of railroad, trucking, air freight and possibly ocean shipping subsidiaries. But they will approach operational integration with caution, applying tests similar to those they use in dealing with interline carriers other than their own. Their market power, single-line customer service and full-spectrum offerings will provide shippers with attractive one-stop shopping for freight services.

A key physical and capital asset





How Megacarriers May Emerge

The multimodal, transcontinental megacarriers of the future will probably coalesce around the capital assets represented by today's major railroad rights-of-way. With these rights-of-way as their core, the megacarriers can use trucking, barging and air freight operations to feed, extend and offer higher-speed alternatives to their rail operations. Alternatively, some megacarriers may succeed without rail or barge capabilities. They might exploit the less capital-intensive, more flexible operations that characterize national trucking and air freight carriers and forego traffic in low-value commodities.

One potential megacarrier is the Norfolk Southern. Its recent acquisition of a 5 percent interest in Santa Fe Industries could be the first step toward becoming the country's first transcontinental railroad. Norfolk Southern also has a trucking subsidiary and owns a major share of a regional airline. Subsequent cross-modal acquisitions of national trucking operations, barge operations and air freight carriers would be logical extensions of such a carrier.

Another potential megacarrier is the Burlington Northern Railroad. It sold off its air freight business to avoid the capital drain of having to acquire its own aircraft fleet and now appears to be pursuing a low capital-cost route to becoming a transcontinental rail carrier. Burlington Northern is negotiating the acquisition of rights to run its trains over the tracks of Eastern railroads rather than seeking mergers with those railroads.

Megacarriers' success will require the commitment to appropriate marketing, data processing and management to make the enterprise a lean Goliath rather than a dinosaur.

of a megacarrier will be its railroad right-of-way for most long hauls, using trucks for feeding and distribution. It needs a nationwide trucking network for ancillary transportation services and as a hedge against any change that might tip the balance in favor of trucking.

Via acquisition and merger, most megacarriers will offer a full spectrum of transportation services to all major geographic markets. Integrated origin-to-destination service will appeal primarily to shippers with multiple origin points, many destination points, multiple products and time-varying freight needs.

To counter inevitable market penetration or erosion by specialized carriers a megacarrier must be able to respond rapidly to the changing needs of its shippers. It will need fully developed operational controls, analysis and planning and, above all, marketing expertise. Its size will favor its ability to develop and utilize new technology.

The megacarrier will want to "lock in" each shipper by adapt-

ing to that shipper's particular requirements so as to discourage the shipper from experimenting with services offered by competitors. Strategies may include encouraging the shipper to experiment with its different services offering long-term contracts, instituting high-volume discounts or integrating its communications systems into the shipper's systems.

Knowledge of an individual shipper's costs, growth rates and facility location plans—and how these fit into a carrier's operating plans and costs—could be crucial in the long run. This type of knowledge would enable the megacarrier to become, in effect, a part of each customer's production and sales process, and to respond immediately to any change in customer needs.

Much of the intercity freight transportation market probably will still belong to specialized carriers. These are carriers that either transport only a selected number of commodities, serve only a limited geographic region or carry only certain-sized shipments. An excellent example of the value of

Specialized Motor Carriers and Services

By taking different types of competitive action, some specialized motor carriers have escaped the recession relatively unscathed.

Schneider Transport of Green Bay, Wisconsin, has expanded its market share through aggressive selling and obtaining the business of manufacturers who no longer maintain private fleets. Bekins Van Lines has entered the LTL freight business and Overnite Transportation now offers transcontinental services. Also, transportation brokers have increased from about a dozen in 1972 to over 4,000 today.

Leaseway Transportation has entered the LTL motor carrier business with the formation of Leaseway Express. Drawing on its

experience with owner-operators in the truckload business, Leaseway Express has developed an LTL service in major traffic lanes only. By using owner-operators for over-the-road transport it can price its services competitively and compete head-to-head with the major transcontinental LTL motor carriers.

Consolidated Freightways (CF) has established CF Forwarding, a freight forwarding operation that enables it to offer shippers one-stop access to all modes of transportation. CF also has formed an air freight arm, CF Air Freight, which provides services in competition with Emery Air Freight and other large air freight carriers.

To market, to market



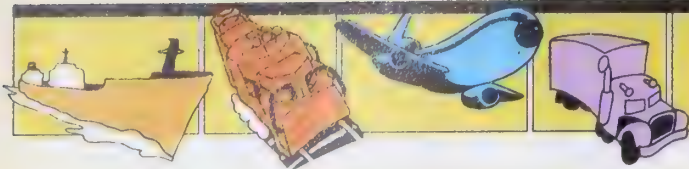
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the last approach is UPS, which has grown to where its revenues are approximately four times those of the largest general freight motor carrier

Most specialized carriers will continue to be truck lines or airlines, but some will be rail carriers. The Florida East Coast Railway, for example, should survive without joining the megacarrier networks.

Many of the success elements that apply to megacarriers also apply to specialized carriers. Sharpness and efficiency in meeting different sets of customer requirements, including service and price, will be crucial to discouraging new competitors, boosting market share, reducing cost and, ultimately, increasing

profits. Working with a multipurpose carrier or megacarrier may be an effective way to accomplish some of these objectives.

Like the megacarrier, the specialized carrier will seek to lock shippers into the use of its services with long-term contracts, integrated communications, shipper-financed specialized equipment and other appropriate tactics.

Most importantly, the successful specialized carrier will know its customers and its competition. It will expand its business because it offers better service or prices than those of its competitors, both specialized and megacarriers.

In Conclusion

There are those who believe that if the United States, like some Western nations, were to leave its freight transport system completely unregulated, the railroads would exact monopoly rates, especially on coal, grain and a few other bulk commodities. Certainly the potential for such abuse exists. Were that potential to become a reality, it could cost the economy as much as a few billion dollars annually and would probably lead to at least limited re-regulation.

On the other hand, unfettered competition accompanied by the restructuring and productization of freight transportation can lead to much larger annual benefits to the economy. These changes al-

Deregulation's Backlash

The deregulation of transportation is not without its opponents:

- Coal companies which see their margins and their markets for export coal seriously eroded by the ICC intention to exempt export coal rail rates from regulation.
- Electric utilities and their coal suppliers, which forecast substantial increases in coal transportation costs as a consequence of the ICC's proposal to let captive coal shippers gradually pay what rail service is worth to them.
- The Teamsters, which anticipates losses in both wages and membership as the trucking industry becomes more competitive internally and experiences more severe competition from railroads and air freight.
- Rail shippers on little-used branch lines, which face an end to their business if railroads respond to the imperatives of capital markets and drop unprofitable services.

These groups, and their diverse constituencies, are lobbying to reverse the powerful tide of economic deregulation of freight transportation. Only time will tell whether they stimulate more regulation, further deregulation or little additional change.

ready have wrung a lot of fat out of the freight transportation industry; they will accomplish more in the decade ahead. The principal beneficiary will be the consuming public. The net gain will be far from trivial.

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Shortages, boarding, undisciplined expansion, indulgent bureaucrats—all these help to retard the socialist economies' ability to match the West.

The problem with socialist economies

An interview with Hungary's János Kornai

By Lawrence Minard

WHY DON'T SOCIALIST economies work very well? Will they participate in the industrial transformations now shaking the West? Or will they remain spectators at the West's technological feast?

For some straight answers we recently sought out Hungary's great economist János Kornai (pronounced YAWN-OSH KORN-eye). A somber, intense, candid man of 55, fluent in English and German, Kornai spoke his mind about the serious dilemmas

facing the socialists. Kornai:

"Technological innovation is one of the most crucial problems now facing the socialist economies. Maybe it is the most important. My feeling is we will go through this [technological transformation] but with serious lags and very significant delays. The most important reason for this, in my evaluation, is that the socialist economies are shortage economies. I find an absolutely strong causal relationship between shortage and slow technological innovation."

Kornai is a celebrity in his native

Hungary, where he has played a central role in that country's economic reforms (see *FORBES*, July 4). Last spring he was awarded a Hungarian state prize for his work. The Hungarian edition of his recent two-volume work, *The Economics of Shortage* (Elsevier North Holland, \$88.50), sold out 8,500 copies in a few weeks, the equivalent in per capita terms of a 160,000-copy U.S. sale. The book has since changed hands at three times the official price in the black market.

But Kornai is only slowly winning the recognition he deserves in the West. He is a leader of the small but increasingly influential band of economists who are bringing a new richness and sophistication to the profession. "Kornai is an absolutely outstanding theoretician," says Peter Albin, the City University of New York economics professor who nominated Kornai for a Nobel Prize a few years back for his critique of orthodox economic theory.

Albin adds: "Working within the orthodox general equilibrium framework tends to put blinders on economists. They assume everything in the system is fundamentally in equilibrium, and they often can't see institutional conditions that are critical—bureaucracy, for example, is outside the orthodox general equilibrium system. But Kornai makes institutional



Hungarian economist János Kornai, viewing Buda across the Danube from Pest

"Why should Trabant produce a modern car if the old one is sold out a whole decade in advance?"



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As I See It

conditions like bureaucracy and shortage absolutely strong, integral elements of his theory."

Kornai is currently widening his Western audience as a visiting lecturer at the University of Munich and will widen it further in the coming academic year as a resident scholar at Princeton's Institute for Advanced Studies.

Not for Kornai is orthodox general equilibrium theory—that elegant but unreal Newtonian world in which atomistic, rational, economic man, left on his own, creates an optimally ordered economic universe. In that sense Kornai rejects Adam Smith. Equally fantastic, he believes, is the Panglossian world of socialist planners who claim they can allocate resources better than an impartial market can. In that sense Kornai is, if not rejecting Karl Marx, at least turning his back on the orthodox socialist vision. Theoreticians of both camps, says Kornai, try to bend economic reality to fit their theories: They view economic reality as they think it should be, not as it really is.

Rather than ignore, for the sake of theoretical elegance, such unpleasant but undeniable economic imperfections as bureaucracy and vested interests, Kornai builds his models around the imperfections. The world is not perfect, so why pretend it is? Like physicians tending an ailing patient, economists should approach an economy on the basis that it is fundamentally sick, not well.

"It is possible," said Kornai in Memphis last September, when he accepted the coveted Frank E. Seidman Distinguished Award in Political Economy, "that the real decision dilemma facing countries, peoples, parties, governments, statesmen and, ultimately, citizens, is 'Which kind of [economic] disease do you choose if perfect health is unattainable?'"

So Kornai proposes an economics that really is a dismal science. Dismal, but useful. Here's an economist businessmen can appreciate.

Why doesn't socialism work very well? A fundamental reality of socialist economies, replies Kornai, looking out over the Danube from high up in Budapest's Forum Hotel, is that they

are characterized by shortage. As a result, they are sellers' markets with scant incentive for producers to innovate. Kornai offers the example of Eastern Europe's automobile industry, which he and two colleagues have recently investigated. Kornai:

"Let's take a car like the Trabant, an East German car that is the most common in Hungary because it is the cheapest. Today in Hungary there is a five-year queue for Trabants. In East Germany the queue is eight to ten years. In Hungary you have to pay half the price when you join the queue. It is forced savings in effect.

"Now the Trabant is a car of the 1950s. Not just the body style, the

age," says Kornai. Even in relatively prosperous Hungary, the wait for a subsidized, state-built apartment is five years. "So why should construction firms think about technological improvements to apartments—even simple things like windows and doors that close properly and reduce heat-loss—when the firm's output is sold out five years in advance?"

"This is a central problem of socialism: namely, that without the competitive pressure of a buyers' market, there is not sufficient motivation for creative product innovation. As long as we don't have competitive buyers' markets to force producers to make creative improvements, we will have to rely on imitating Western innovation."

Why are socialist economies plagued by shortage? Central planning is supposed to avoid just such problems.

Kornai rejects the socialist planners' apologetic claim that shortage is the result of human error—that bigger computers, better managers, harsher worker discipline will solve planning problems. "The problem is not caused by independent human error," he says. "It is systemic."

Kornai also rejects the orthodox Western economists' claims that shortage is the result of excessive consumer wages chasing inadequately priced goods. "Consumer price increases will not cure shortage," Kornai says. He explains:

"In socialist economies there is what I call 'investment hunger' and 'expansion drive.' Everyone in a socialist economy wants to expand. The ministries want it. Top

leadership wants it. Factory managers want it. Expansion is the main economic drive in socialist economies."

But surely this is not unique to socialism? Kornai agrees:

"Expansion drive is common to all achievement-oriented societies. Generals, companies, universities, bureaucracies—they all like to expand. But in a strictly private capitalistic economy, there is a strong counterforce against expansion drive. This force is what I call the hard budget constraint. If a capitalist expands and fails, he can go bankrupt. He doesn't expand if expansion is dangerous. If no one will bail you out from your mistakes, if you must rely on your own income, then you will be cau-



Kornai, leaving for Munich

"We will have to imitate Western innovation."

whole car is 30 years old. Why should the Trabant company produce a modern car if the old one is sold out for a whole decade in advance?

"Now compare this with the buyers' market for cars you have in the West—the very cruel competition between Japanese, German, American, and so on, cars on the world market. To sell in this buyers' market, you have very strong incentives to develop new technologies in fuel savings and pollution controls—and the Trabant, by the way, is not a very fuel- or pollution-efficient car."

The same goes for the socialist countries' desperate housing shortage, "one of the most depressing social problems that arises from short-

tious in your undertakings. It is a matter of expectations."

Kornai recalls an early film by the Polish director Andrzej Wajda to make his point: "It is set in the 19th century. New textile factories are being established in Poland, and some of the new textile capitalists are former aristocrats. One of these aristocrats gets into financial trouble. He goes to his old friends, other noblemen, looking for money. They refuse. He cannot pay his debts. There is a very traumatic scene where he kills himself because there is no other way out. That is the classical hard budget constraint."

In socialist economies the budget constraints are soft: The fear of failing doesn't exist. The State acts as indulgent father to its undisciplined bureaucrats and managers. Says Kornai: "I'm sure that most American military investments are based on the same psychology. You ask Congress for \$1 billion; they approve. If it turns out to cost \$2 billion, no one will stop it in the middle: It must somehow be finished. So the first thing is to start. This leads you to this expansionist behavior, and that creates insatiable producer demand."

"The problem with the modern socialist state," Kornai continues, "is that every investment is a comfort case like this. The manager has absolute safety. He is sure he will be bailed out. He knows the state will act as a kind father. So the brake on expansion doesn't operate. He says to himself: Why not ask for more money?"

In such an environment it is only logical that producers will compound the shortage problems by hoarding, which begets more shortage and sellers' markets. Kornai:

"If there are shortages, supplies are uncertain. If supplies are uncertain, it is only rational behavior to hoard inputs and inventories. If you are hoarding, then your demand will be ever increasing because you don't buy when you need something, you buy when you can get it. You don't fire workers because maybe you can't find replacements tomorrow. This is the hoarding mentality. The West had it during wartime. We have it today. It is all a vicious circle."

Western textbook economics offers a simple way out: Raise prices. Irrelevant to the semimonetized socialist economy, says Kornai:

"Western economists trying to explain the shortage phenomenon always focus on the consumer market, on nominal wages and consumer prices, and say a price increase will solve shortage. Price increases won't

solve it because they do not reduce [the firms'] demand in a socialist economy."

The problem is that soft budget constraint: Managers who feel no fear of failing will simply absorb any price increase and pass the cost on to their customers. Kornai:

"Think again of the construction industry, which builds both producers' factories and consumers' apartments. There is a great shortage of space. So suppose you raise rents. Maybe if you raise them by five times, I, as a consumer, would move out. But the company with a soft budget constraint can easily pay five times more. He won't move out. On the contrary, if the consumer moves out, the company will eagerly take it over. A Hungarian citizen cannot afford 6,000 forints a month rent [\$150], but companies with soft budget constraints can easily pay 6,000 forints out of pocket. This is why I say a company that is price-irresponsive can always suck away goods released by an increase in consumer prices."

There is only one way out of socialism's vicious circles: Change the behavior of socialist workers and managers. Harden their budget constraints. Instill in them the fear of failure.

"What we need," says Kornai, "is to have a realistic price structure where profit really means something. Then let profitability make the selection of which firms should survive. If a firm is not profitable, let it go down."

Kornai anticipates our question: "Is it possible to have bankruptcies in a socialist economy? This is very difficult. I think not, as long as you have only very large firms with one firm monopolizing almost a whole industry. So we need less concentration."

"I think bankruptcies are not impossible under socialism. But it leads to very deep institutional problems, to the paternalistic relationship between the State and the State-owned firms. This relationship must be made less paternalistic. Socialist firms should be treated as grownups: Let them stand on their own. But it is all a matter of expectations and ingrained habits. You cannot call a cabinet meeting on Monday and say we will change from a sellers' market to a buyers' market on Tuesday. There is a given situation."

Food for thought. Remember János Kornai the next time a politician wants to "rescue" an industry. Remember the potential consequences of international soft budget constraints when bankers urge bailing out another bankrupt country. ■



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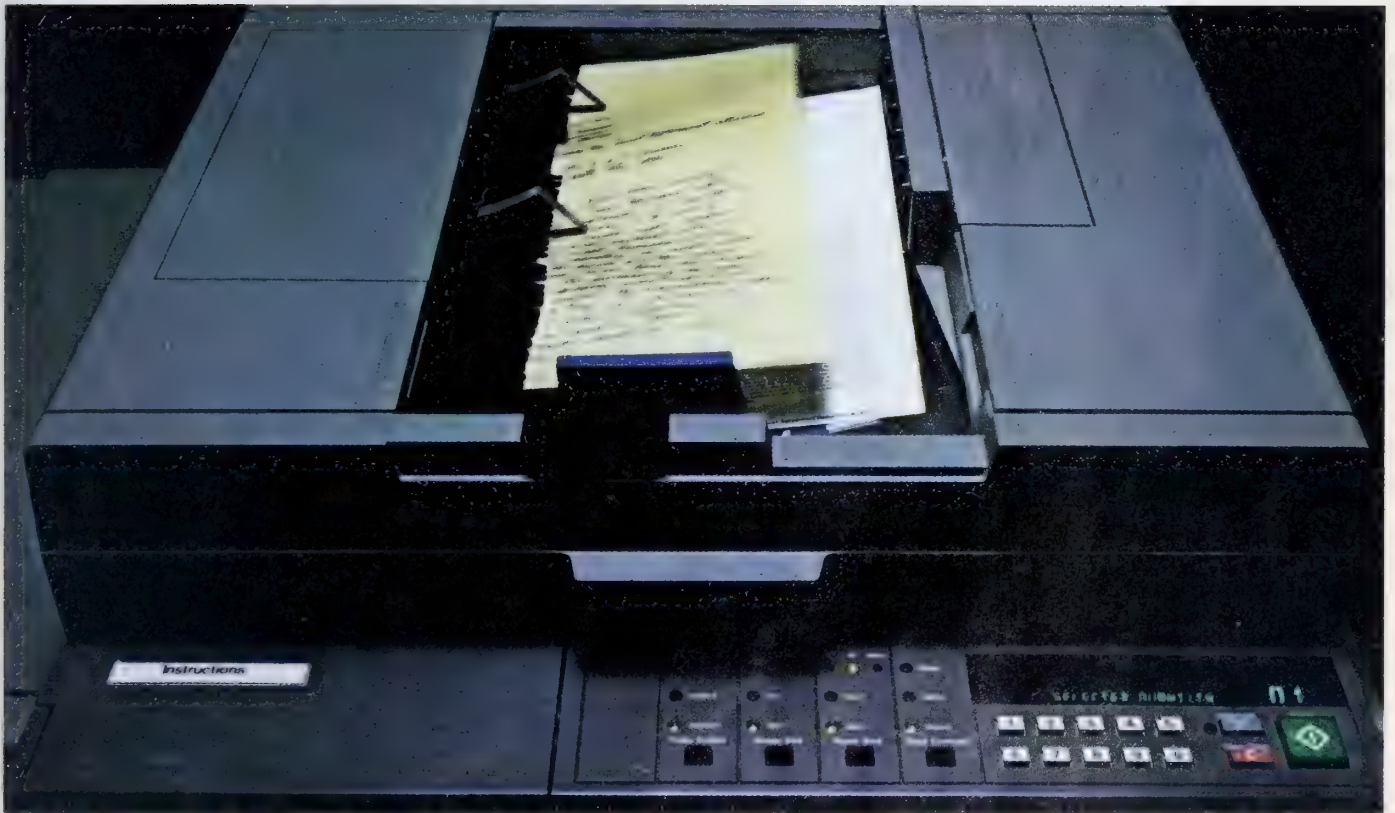
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Health care and communications—a great combination. But for American Medical Buildings, it's a big gamble.

Will it fly?

By Jane Sasseen

JOE CHECOTA'S American Medical Buildings, based in Milwaukee, was solidly positioned in the health care industry as leading builder of outpatient medical facilities. But in 1980, as construction spending shrank and the economy slipped into recession, one of American Medical's big contracts was canceled, and the company had to report a loss of \$96,000 on revenues of \$23 million.

Not much, but humiliating to a company that was in a great industry and had been earning close to 20% on shareholders' equity. It was a forceful reminder to Checota, the company's founder and president, that he wasn't quite the master of his fate. "Our growth was dependent on the economy, not on anything that we did," he says. "We had \$20 million in cash that we didn't need for operations, so we decided to put that money into a business that would make us a \$200 million company, fast."

In Horace Greeley's time ambition headed West. Today it heads for telecommunications. But West was cheaper, as Checota has since found out. Checota used the company cash to start The American Network, a closed-circuit television hookup for the nation's

7,000 hospitals. American Medical invested \$10.5 million in a satellite broadcast channel of its own, and there were other startup costs. American Medical is no longer awash in cash, and it has borrowed heavily, increasing its debt from zero in 1976 to \$15.3 million today. That means that more than 60% of its capital has been borrowed. And American Medical showed a 1982 loss of \$375,000, despite having construction division earnings of \$1.5 million.

So far only four hospitals have signed up for Checota's closed-circuit programming, but he predicts the

losses will end this year. The network began programming in July. "Hospitals are inundated with information," Checota says. "They spend enormous amounts of time and money keeping up with everything from new surgical techniques to the latest in federal reimbursement," Checota says.

The American Network will carry movies, sports and news for patients, interspersed with brief health care programs. For medical and other staffers, it will provide training films and other informational programs. The pitch is that by bringing the information to the hospitals, it will help them save some of the \$100 million a year or so that hospital staffers spend on travel and education. The network will also program teleconferences on such topics as cost control and medical recruitment.

Checota, now selling the network hard, needs quick signups to stem his losses and get a jump on his closest competitor. That's the Hospital Satellite Network, based in Los Angeles. Its programming is to begin early next year. To break even, The American Network needs contracts with hospitals representing around 80,000 beds. But Checota expects to reach that by September and has told analysts that the numbers will be up almost fourfold, to 300,000 beds, by the end of the year. A recent deal with North American Philips will help. NAP has installed its TV sets in 470 hospitals, with a total of 125,000 beds, and charges patients for their use. NAP will defray part of the cost of the new service for its hospital customers in the hope of encouraging patients to use the sets more.

That cost will vary with the hospital's size and the services it receives. A 300-bed hospital may typically pay about \$30,000 a year, a figure that includes the cost of receivers and other hardware. Checota argues most hospitals can recoup their cost by charging patients around \$3 a day for movies. Thus they will get the rest of the services virtually free.

Peter Rapaport, an analyst for Prescott, Ball & Turben, is one who thinks Checota will probably succeed. If he can sign up



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of a wide range of companies around the world. Because whether
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The Up & Comers

hospitals with 300,000 or more beds, Rapaport says, American Medical will earn at least \$2 a share in 1984, in sharp contrast to last year's 11-cent-a-share loss. "Everything is in their favor now," Rapaport says. "It would take a colossal screw-up for them not to sign up enough beds for this to work." A lot of investors apparently agree. From about \$4 last August, the price of American Medical shares has jumped to \$24.50 recently.

But prospective investors should consider a second opinion. Most hospitals view The American Network contract with extreme caution because of costs that are still rising and the quick pace of change in telecommunications. Even in the most favorable of times, hospitals are notoriously cautious decision makers. "We're not willing to dump a lot of money into this quickly," says John Fitzgerald, vice president of telecommunications for Hospital Corp. of America (HCA), a 365-hospital chain. "Next year, costs and programming will be a lot clearer than they are today, and we have nothing to lose by waiting."

HCA and other hospitals, moreover, can become competitors. HCA has already installed satellite dishes at nine of its hospitals to experiment with its own video teleconferencing. The American Hospital Association broadcasts free and paid video teleconferences and other programming for hospitals. And hospitals in a score of cities are creating areawide cable and microwave networks.

One of the local networks already broadcasting, in Cleveland, charges hospitals an average of about \$12,000 a year for educational programs and teleconferences. "Instead of offering their programming services à la carte, American Medical is making everyone pay for a full meal," says Richard Santich, director of television education for the Greater Cleveland Hospital Association. "I'm not sure most hospitals really need everything they have bundled together." Stay tuned.

Divide and conquer

In the best of all possible worlds, Arthur H. Stromberg says, he never would have rid himself of a solidly profitable business merely to make his URS Corp. so simple that even a securities analyst could understand it. URS, after all, consistently has been one of the fastest-growing small companies in the U.S. and a member of the *FORBES* list of Up & Comers. But



URS Chairman Arthur H. Stromberg
Spinning off a winner.

that's what he did: spin off from URS its computer training subsidiary, Advanced Systems, Inc., by giving its shares to URS shareholders. And guess what. The sum of the parts has become greater than the whole.

The spinoff, last February, left URS with its basic engineering consulting business. The company specializes in the planning and design of transportation, energy and health care projects. URS shareholders got about half a share of Advanced Systems and kept each share of URS they already owned. Before the spinoff, a share of URS traded for about \$11. Since then, the price has risen to about \$17. Advanced Systems sold recently for around \$30 a share, or \$15 a half-share, so that the \$11 URS share has become worth some \$32 in URS and Advanced Systems shares.

Give credit to the crazy market in small-company stocks for much of the gain, but credit Stromberg's spinoff, as well.

The trouble had been that, despite URS' impressive earnings performance, its shares had sold for only about 8 times earnings.

"Erroneously," Stromberg says, "I used to figure that if we spent our time taking care of our business, pro-

ducing good results, the people who get paid to find good businesses would find us, and then everything would be wonderful."

The people he refers to are securities analysts. In fact, URS received many calls from brokerage houses, and the question was usually the same: "What kind of analyst should we assign to cover you?"

"The first couple of times," Stromberg recalls, "I said, 'Someone with an IQ of 130 who can read an annual report.' But I realized analysts are like the rest of us. Give them something easy to understand, and they will go with it. We had made it tough for them to figure us out."

Stromberg professes no great surprise that his two companies now have attracted more investors. "Advanced Systems is growing at 30% compound, it has no debt and it has \$14 million in the bank," he says. "How many other growth companies can make that claim? It's simply a great little company. And I think URS is starting to get some recognition."

URS earnings have risen steadily of late, and government spending on civil engineering projects to rebuild the nation's infrastructure has enhanced the company's future. Over the past



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year its backlog of work has increased to \$40 million. The 5-cent-a-gallon gasoline tax increase that went into effect Apr. 15 will alone produce an additional \$5.5 billion for spending on rebuilding the nation's highways and other transportation projects. Projects like these are one of URS' consulting

specialties.

URS has 32 offices around the country, where employees spend a great deal of time with state and local authorities, learning about a government's plans for future construction and offering suggestions that they hope will lead to fees. "People talk about the infrastructure in general terms and say it is a multitrillion-dollar market," Stromberg says. "But

when you cut through all the big words and big concepts, most of the decisions on what is going to be built or fixed are made on the local level."

Stromberg would have preferred that URS hold on to Advanced Systems. But he returns to his theme: It is an imperfect world. "In a perfect world," he says philosophically, "I don't even know if we would be public right now."—Paul B. Brown

An energy-business standout

Anderson, Greenwood & Co., which earned \$6.1 million on \$61 million in revenues last year, is a little valve company dependent on energy and petrochemical customers for 88% of its sales. Yet this year the company expects earnings to decline by only 15% to 25%, even though its most important markets—in gas pipelining, liquefied natural gas and electric power plants—remain an economic wasteland.

The secret lies largely in Anderson's conservative pricing policy. When most oil industry suppliers were raising prices with abandon during the energy boom, Anderson posted only modest increases, because it did not try to charge what the market would bear. When boom turned to bust, the competition had to cut prices sharply. But Anderson's chief executive, James Elder Jr., hasn't discounted his valves at all. "We thought carefully about how to price them in the first place," says the self-assured

Elder, 59. "If you invite competition by raising your prices when the market is really good, people see opportunity for growth and will enter your field." Securities analyst Russell Miller of Alex. Brown & Sons agrees. "Flat prices helped it retain a good position in many valve catalogs," Miller says.

Anderson's product line is about evenly divided between safety-relief valves and valves used to bleed off pipeline gas into instrument clusters that measure pressure and flow rates. Operating temperatures range from near absolute zero to 800 degrees Fahrenheit; pressures, up to 10,000 pounds per square inch; prices, from \$15 to \$100,000 a valve.

Anderson knows its little chunk of the \$5 billion worldwide industrial valve market well. But it took founders Ben Anderson and Marvin Greenwood a while to get to that market. Boyhood chums, brothers-in-law and fellow ex-Boeing engineers from

Houston, they founded the company in 1947 as an aircraft manufacturer. They managed to get five single-engine planes off the ground before Korean War material shortages forced them to shut down.

But the war also brought a subcontract from Boeing for safety-relief valves for oxygen supply tanks on missiles. Success there opened markets in petrochemical plants and other high-pressure systems.

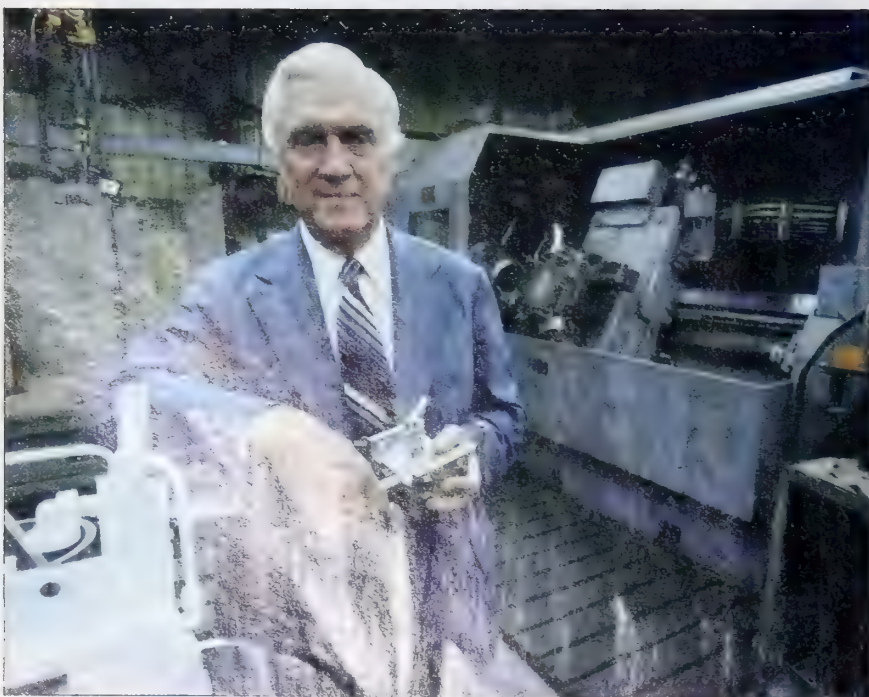
Anderson, descendant of a founder of Houston's Anderson, Clayton & Co., invested \$3 million toward expanding the company, while his partner, Marvin Greenwood, invested his engineering talent. Greenwood had pioneered the use of tighter-closing Teflon seals for relief valves, as well as "pilot-controlled" designs in which a small valve triggers a much larger one to let off steam. But the partners' old aviation dream lingered. In the early 1970s Greenwood, then running the company, started sinking valve profits into designs for an airplane to be built by a company in Minnesota. The venture ended disastrously in 1979 with a \$5.6 million pretax write-down, Greenwood's retirement at age 65 and Elder's promotion. Elder, a mechanical engineer by training, had been with the company for 33 years.

By 1980, when Elder took over, the company's founders had drifted. Anderson had semiretired in 1963 to do civic work, and Greenwood's retirement found him in his garage with blueprints for airplanes that fold up onto a car trailer. Elder, meanwhile, intends to make the company only 50% energy-dependent by 1985. He has the cash to do it: The company is sitting on more than \$10 million.

Anderson, Greenwood's dominance in its markets suggests that the company eventually will manage to resume its growth of 20% a year in sales, even without breaking into big new markets. Ben Anderson and Marvin Greenwood never did realize their aircraft dreams, but they created a mighty fine company all the same.—Jessica Greenbaum

James Elder Jr., chairman of Anderson, Greenwood & Co.

Going easy in the boom, sitting pretty in the bust.



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When ARCO, operator of the eastern half of Alaska's Prudhoe Bay field, found that a special offshore facility would be needed to increase the field recovery, it was crucial they find a company that could not only build it for them — but assure delivery by August. Any later, and the Bering Strait would become impassable for another year.

That's when ARCO asked Daewoo to build them a first-of-a-kind Seawater Treating Plant. And it was



Daewoo's S. J. Lee, project director, who made sure the plant was completed and on its way on time.

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It walks and talks like a corporation, but it pays no corporate taxes. Unless the IRS can figure out how to stop it.

Disincorporating America

By Toni Mack

A GENETICIST couldn't have engineered a better hybrid. It can do almost anything a corporation can do, but it isn't a corporation—not according to the Internal Revenue Service. It's a master limited partnership, as Dean Witter Reynolds dubs it, with all those savory tax shelter deductions and no corporate income tax. Chortles one master-partnership executive: "We've found a way to disincorporate America."

Master partnerships—so called because they are widely held and publicly traded—are a new paper shuffle meant to keep Uncle Sam's hand out of corporate pockets. The idea is catching on. Apache Petroleum Co. was the first, 2½ years ago, and for a while the game was confined to the oil patch. Now others want to play, too. Masonite Corp. spun off its timberlands and sawmills as a partnership last August; Newhall Land & Farming, following Dillingham Corp.'s 1981 lead, spun off its commercial real estate last March. Investment bankers are even talking about recreating manufacturing and industrial companies as partnerships.

Just one problem: The more the trend grows, the more incentive the IRS has to stop it. After all, the whole point is to eliminate corporate taxes. "That's the sensitive is-

sue," admits an investment banker. "There is no way General Motors could do this. It would be too visible, and the Treasury would lose too much revenue." The Internal Revenue Service has already quit issuing letter rulings for one type of master partnership while it studies possible revenue loss.

Meanwhile, euphoria reigns. "This idea is so damn good, it's hard to believe," says Bromley DeMeritt, vice

president of McRae Consolidated Oil & Gas in Houston. McRae plans to liquidate its oil and gas properties into one partnership, its Louisiana gas pipeline into another. "The moment we sent off our proxy, we got calls from all the New York law firms," says DeMeritt. "There's going to be a lot more of this."

The master partnership originally created by Apache Corp. Chairman Raymond Plank was a cross between

two oil-patch maneuvers, the rollup and the royalty trust. In a rollup, limited partnership interests are exchanged for publicly traded stock; in a royalty trust, shareholders are assigned direct ownership of oil and gas royalties. Plank wanted to find a way to give Apache Corp.'s limited partners liquidity but didn't like the double taxation—on both corporate and dividend income—that came with a rollup into a public corporation. The royalty trust avoided taxes but was restricted to passive investments and a full payout of income. Plank's brainstorm: a rollup into a publicly traded limited partnership.

The result, Apache Petroleum Co., is a corporation in almost everything but name. It reinvests about 50% of its income, issues equity called "depository units" (which are exactly like shares of stock, except for tax purposes). The partnership pays annual dividends,



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called "distributions," on these units. It borrows money, makes acquisitions and otherwise behaves like any normal business. The only thing it doesn't do is pay corporate income taxes. Last year Apache Petroleum paid \$402 million for Dow Chemical's oil properties, and now it is issuing \$43 million worth of units with warrants to help pay off the debt. The units trade on the New York Stock Exchange.

Apache Petroleum and its oil business clones (there have been five so far) are a hit with investors. Here's why: A unit of Apache bought on the Big Board for \$23 in January 1982 yielded \$2 cash for the year, or about 9%; and until cumulative distributions and losses exceed what the investor paid for the unit, the distributions are tax-free. That's not all: For tax purposes, Apache reported losses that amounted to \$1.85 per unit; this "loss" the investor could take as an offset to regular income on his tax return. For high-bracket investors that tax offset is good for another \$1 per unit, bringing the total aftertax return on investment to 13%. A hitch is that, on sale of the unit, the IRS

may exact capital gains taxes and recapture some deductions, but that seems a relatively small hitch. All these advantages get reflected in the market price. Dean Witter Reynolds finds that oil and gas partnerships tend to trade at or above their asset value, which is uncommon for exploration companies. May Energy Partners, for example, trades at 20% above its estimated asset value. May Petroleum, the corporation that spawned May Energy, trades at a steep discount.

New varieties of partnerships blossom. There are liquidations: McCormick Oil & Gas, which was formed in 1980 as a rollup into a public corporation, now plans to dissolve itself back into a partnership. There are spinoffs: Masonite's trees and Newhall's office buildings were spun off to shareholders. Transco Energy Co., which is turning its \$1.2 billion (assets) exploration subsidiary into a partnership, has a new twist. It will sell 10% to the public and keep the other 90% under corporate ownership.

It's a heady thing, say the investment bankers: There's no reason all kinds of companies can't disincorpor-

ate into partnerships, as long as someone is willing to take liability as general partner. Shearson/American Express is general partner for McRae, which is a guinea pig for Shearson. (The guinea pig may die an untimely death; the founder's ex-wife, who owns 17.4% of the stock, balked at the last minute, and the issue is still in doubt.)

Shearson Vice President Robert Minicucci is combing through manufacturing and industrial outfits, as well as natural resource companies, for likely candidates. His criteria: good, predictable cash flow; a low level of deferred taxes and investment credits, which may suffer recapture on conversion; and little need for growth capital. "It can be just about anything that's eligible for a leveraged buyout," concludes Minicucci.

Most economists think the corporate income tax is a monstrosity that should be abolished. It leads to double taxation for shareholders and soaks up money that would otherwise go to capital investment. This may amount to the same thing as abolishing the tax, but it's a cumbersome and painful way to do it. ■

When Jack James steps down as Dresser Industries chief, he will leave a solid financial foundation—and a diversification program in need of remodeling.

The house that Jack built

By Toni Mack

WHEN JOHN V. (Jack) James ends his 13-year tenure as Dresser Industries chief executive this month, what will his successor inherit? A tidy balance sheet with long-term debt at only 21% of capitalization. But the new chief executive—likely to be John J. Murphy, a 31-year Dresser veteran whom James named president a year ago—will also inherit a hodgepodge of product lines, some top-notch, some me-

diocre, some less than mediocre. Dresser can be summed up as a good oil service company with some questionable diversification.

For most of James' years at the helm, the oil business was booming and James was able to show sparkling returns: 17% or better on equity almost every year. But what the oil boom gave, the oil glut takes away. What Murphy will be taking over is a company that sank into the red in the first half of 1983 in spite of some handy tax credits. Dresser will be

lucky to earn 50 cents a share for the full year. Everybody in oil services has been hard hit, but Dresser's recession-sensitive product lines have only aggravated the problem.

Diversification made sense for Dresser when it started in the early Sixties. At the time its traditional oilfield market was tumbling down a 17-year decline. James and his predecessor, John Lawrence, presided over a raft of acquisitions that brought to Dresser products ranging from refractories to industrial abrasives, from earthmovers to mechanics' hand tools.

Jack James, a finance man with a B.S. in economics from the University of Pennsylvania, applied to Dresser's acquisitions tight financial controls and lofty targets. It's useful to be able to gather monthly profit figures a few days after the end of the month. But good business sense also means taking cues—sometimes inspired ones—from what the numbers say. And taking them promptly.

While gathering the numbers, James did not always seem to listen to what they said. Consider Harbison-Walker Refractories. Dresser paid \$150 million—a 40% premium to market value—for Harbison-Walker in 1967. Primarily because the steel industry buys 60% of its output, its operating profit margin has been

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John V. (Jack) James, chairman of Dresser Industries

Financial controls are useful—if you listen to what the numbers say.

melting away for the last eight years. James waited until three months ago before concluding that the refractories business was due for revamping. Two of its 18 plants will close, and eventually 20% to 30% of its total capacity will go. But why didn't James bite this particular bullet when things were going well elsewhere in the Dresser empire?

Then there's construction and mining equipment, which James plunged into with a \$141 million acquisition in 1974. Its profitability has dwindled since 1976, turning into losses in 1981. Far from cutting his losses, an undiscouraged James paid about \$85 million in cash last November for International Harvester's moneylosing construction equipment business. It was a rock-bottom price, around 25% of book value. Even so, this may not have been the bargain it seems. Considering the scarcity of other cash bids, it's possible Dresser paid more than it was worth.

James, a gruff man with white hair and a domineering presence, defends

the IH acquisition. He believes Dresser will benefit in two ways: by getting additional products to sell to Dresser's mining customers and through an acquired dealer network, 70% of which already carries Dresser construction equipment. Fair enough, but construction equipment is a rough business. Dresser faces the likes of Caterpillar, John Deere, Tenneco's J.I. Case and Komatsu in a market where recovery will be slow. Is this the stuff of top-notch performance?

Dresser, fortunately, does have some top-notch performers. Its oil-field supply operations, which include products like Magcobar drilling fluids and Security drill bits, have maintained a reputation for high quality and low cost. Here James gets high marks. He didn't let the oil boom go to his head. He expanded, but he subcontracted work as well—55% of Dresser's rig-building sales in 1981, for example. In drill bits, Dresser considered building capacity to make tungsten carbide inserts, but concluded buying would be wiser. That Dress-

er's oil services are now in the red has more to do with price cutting for much of the product line than with any deficiency of performance.

Dresser's energy processing and conversion division also sports some winners. Its Clark compressors tend to be market leaders, especially in high-pressure applications—markets where customization, performance and technology win the day. Yet a former Dresser executive suggests that the processing group succeeds by flouting James' financial controls: "When they decided to take a risk, they didn't necessarily announce it to the corporate office, and they didn't start the clock on return on investment until they knew the project was viable." Indeed, energy processing and conversion is the only one of Dresser's five divisions to be profitable right now.

While Dresser was expanding over the lot, it neglected a fine opportunity in its own backyard. Dresser's numbers should have told James that Atlas, its well-logging subsidiary, was a good bet. Well-logging—making downhole tests for indications of oil and gas—is a \$4 billion-a-year market where leader Schlumberger keeps its operating margins around 50% and only in the last few months has deigned to cut prices. Customers, understandably, are happy to shunt orders to Schlumberger's competitors. Dresser has owned Atlas since 1955 but didn't begin a full-throttle expansion until two years before the market's downturn. To James' credit, he has continued expanding Atlas in the face of the downturn.

Financial Vice President Edward R. Luter denies that Dresser's diversification is problematic. He defends the company's acquisition record, saying that management is constantly examining and pruning, and points out that Dresser has sold an estimated \$100 million worth of assets over the last ten years. "In the coming years," he says, "we'll continue to prune off things we don't think will meet our goals."

It's not clear what plans Murphy, an engineer who got an M.B.A. from Southern Methodist University two years ago, and James, who remains chairman, have for Dresser now. Both decline to be interviewed until October, when they expect to be able to report "better news," according to a spokesman. That sounds as if the company expects business to pick up by then, and the economy seems about to accommodate it. But an improving economy by itself won't solve all of Dresser's problems. ■



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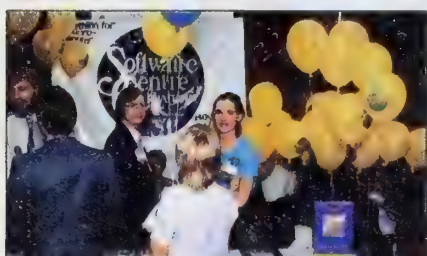
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Software retailers



And old-fashioned show biz



Alli get together at Northeast Exposition's PC'83 in San Francisco

By Kathleen K. Wiegner

IN 1979, FLYING home to Boston from Chicago, Sheldon Adelson noticed something. The computer magazine he was reading carried articles aimed at independent computer dealers. What the world needs and doesn't yet have, thought Adelson, was a computer show for those dealers. A former salesman, venture capitalist and real estate developer, Adelson knew full well that you have to move fast with ideas like that. Only two months after that ride, Adelson had announced the first Comdex (for Computer Dealer Exposition) show. Thus are entrepreneurial fortunes made. This year Shelly Adelson, 50, expects to gross around \$100 million from his organization, The Interface Group, Inc. Interface runs fall and spring versions of Comdex, regional computer shows and a special show for those who sell directly to the federal government.

Adelson has plenty of company; if there is a business more vibrant than the computer business these days, it could well be the computer show business and the promoters thereof.

There's San Francisco's Jim Warren, 47, a former high school math teacher who grew interested in computers and programming in the late 1960s. While editing one of the early computer magazines, *Dr. Dobbs' Journal of Computer Calisthenics and Orthodontia*, he began hearing about computer festivals popping up around the country. "Thirty-five hundred people met in Atlanta in the summer of 1976," exclaims Warren. "But there was nothing going on here on the West Coast."

So in 1977 Warren put on his first West Coast Computer Faire—bankrolled with \$600, the deposit on the San Francisco Convention Center. At

\$8 a head, 12,800 people turned up, and Warren was in the black. This year's Faire (Warren adds the "e" to conjure images of the earthy, communal excitement of Renaissance Faires) grossed an estimated \$1.5 million. Warren, who used to roller-skate around the exposition halls, recently sold out to Prentice-Hall for a sum in the multiples of millions.

Or take Gerald Milden. Milden was producing boat shows when he saw the computer crowd's pulling power. In 1979 he put on a personal and business computer show in Boston and never looked back. Today Milden's Boston-based Northeast Expositions produces five regional computer shows, shows directed solely at Apple users called Applefest, and an IBM PC show. Next February Milden will lease the Superdome in New Orleans, where he has already sold space to more than 1,000 computer software companies at \$16 a square foot.

The trade show is probably as old as trade itself. Just as the Leipzig fair once served in Renaissance times as a distribution center for a then-innovative product—books—so today's computer trade shows function as specialized markets where buyers, sellers and gawkers come together to offer goods and services or to be entertained. Unlike the great auto shows of the past, bikini-clad models do not drape themselves over the latest hot hardware. Instead, crowds crane their necks for a peek at Apple's Lisa. The flashing color graphics and whirring disk drives offer the same entertainment value as a George Lucas flick.

The National Hardware Show is still the largest annual U.S. trade show in terms of paid exhibition space (\$5.7 million last year) according to *Tradeshow Week*. But Adelson's four-year-old fall Comdex show has leapt up *Tradeshow Week's* charts to the number 20 spot, with several other computerfests right behind.

There are regional computer shows, peripheral shows for the disk drive and printer crowd, office automation shows, even whole shows devoted to such arcane products as computer operating systems (software that controls the overall operations of a computer). A show focused on Digital Research's popular CP/M operating system drew 50,000 devotees to San Francisco this year for three days of conferences and displays.

Trade shows traditionally have been the province of not-for-profit trade associations. But as befits the entrepreneurial nature of the computer business, computer shows are increasingly run by profit-oriented inde-

pendents like Adelson and Warren.

Now bigger fish are moving in. Publishers, in particular, see computer shows as logical extensions of their business, particularly if they publish magazines for the computer trade.

"A trade show is a magazine in the flesh," explains Adelson, who once owned a trade magazine himself. He proceeds to embellish the analogy. "The editorial is the conference held in conjunction with the show, the readers are the attendees and the advertisers are the vendors on the floor." Boston-based, privately held Connors Publishing runs close to 100 different trade shows worldwide. Of these, three are targeted for computer buyers who are readers of Connors' *Mini-Micro Systems* magazine. CW Communications, publishers of *Computer World*,

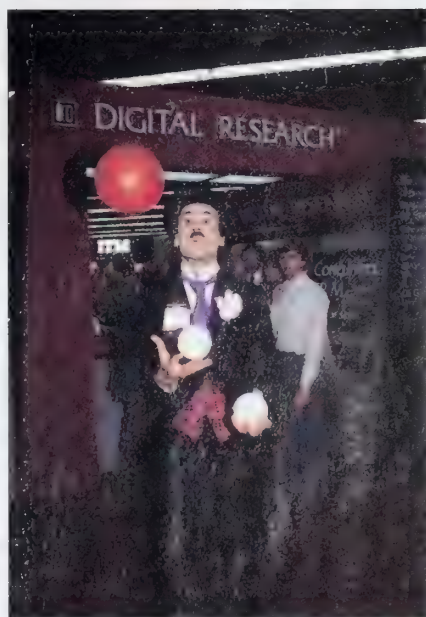
also has a series of shows, including one on office automation.

Counting revenues just from selling exhibition space and admissions, FORBES estimates that U.S. computer shows could rake in some \$500 million next year. New shows spring up almost as quickly as new computers. Jim Warren, whose IBM PC show weighs in this fall, expects around 30,000 people, each paying \$10 for the delight of viewing all the software and other gear—everything from memory boards to modems—made to work with IBM's hit product.

The business of putting on these shows creates opportunities far beyond those for the show promoters themselves—something to remember the next time you hear computers destroy jobs. Greyhound Exposition Ser-



Customer of tomorrow tries his hand at ComputerLand booth



Modern times



Office of the future?



The computer chef





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Unlike the great auto shows, bikini-clad models do not drape themselves over the hardware. Instead, crowds crane for a peek at Apple's Lisa. The flashing color graphics and whirring disk drives offer the same entertainment value as a George Lucas flick.

vices, a subsidiary of Greyhound Corp., offers a one-stop service for exhibitors. Greyhound will lay out the floor plan and provide signs as well as rental items like carpeting, potted plants and furniture. Flashy booths? Try Giltspur Exhibits, a subsidiary of the U.K.'s Unigate Ltd., which designs booths that run as high as \$250,000 for clients like Tandem Computer, Xerox and Osborne Computer. An English subsidiary of Giltspur designed the sets for *The Empire Strikes Back*.

New specialties breed new specialists. Two years ago Dianne Emerson was trade show manager at Intel Corp. Today she runs Los Altos, Calif.-based Emerson & Associates, a five-person computer show consulting group that helps companies such as Xerox' Diablo Systems decide which shows to attend and what kind of booth to erect and even arranges to set everything up in time for opening day.

Computer shows were once elite affairs for serious engineers with pens in their shirt pockets and keys on their belts—data processing managers who knew their bits and bytes. Exhibitors were makers of mainframes and minicomputers, whose products changed slowly. Then came the small computer and with it a mass audience. Pushing out of the hall basements and outbuildings where they were once relegated, the Apples and Osbornes transformed a highbrow affair into a democratic free-for-all.

The oldest of the computer shows, the show of shows as it were, is the National Computer Conference, run by the nonprofit American Federation of Information Processing Societies (AFIPS). Last May 100,000 people descended on Anaheim, Calif. for AFIPS' tenth annual NCC to view the wares of over 650 exhibitors. Displays sprawled out of the convention center into airless tents where heat-sensitive computers failed as temperatures, and tempers, soared.

Exhibiting at these shows is not cheap. AFIPS charges \$15 a square foot for exhibition space. An established company taking, say, 1,600 square feet, would ante up \$24,000 well in advance of the next annual show. Then there's the booth, which can run another \$100,000 (although that can be amortized over a number of shows). And transportation: It costs a company in the East around \$24,000 to ship its computers and related equipment to the West Coast and back, plus another, say, \$4,000 just to get the equipment from the unloading docks into the convention hall. Carpenter and electrical bills add another \$8,000 or so to the tab. Then there are

hotel rooms for the people working the show, hospitality suites for meeting customers (since IRS rules prohibit selling on the floor for nonprofit associations) and parties for exhibitors, dealers and the press. A "simple" cocktail reception could run \$2,000. Whenever an AFIPS show is in Anaheim, Apple Computer always takes over Disneyland for an evening. Cost: around \$50,000.

"Excluding our \$100,000 booth," says Donald Pate, vice president of marketing for San Jose-based Atasi Corp., a tiny (under \$10 million sales) maker of high-performance disk drives, "we have a budget of \$35,000 for each show we attend. We will go to four this year. I could go to a show a week if I had the budget."

To a large extent the computer show promoters are selling to exhibitors' fears. "The show people have done a great marketing job," says Richard Cortese, president of \$29 million sales Alpha Microsystems, grudgingly. "They have created an environment where you are noticed by your absence. Not to appear at NCC or Comdex, the two most important shows, could suggest to dealers and potential customers that a company is in trouble—or out of business. So Alpha Microsystems will be at NCC and Comdex next year.

But this year Hewlett-Packard's management will not be there, nor was it last year. H-P has started producing its own shows aimed at people specifically interested in H-P products. This year H-P rented hotel exhibition space in 14 different cities for three-day sessions with potential customers. "We find this a very cost-effective way of working," says an H-P spokesman. "If you go to the big shows, you may get only 30 seconds with a customer."

But don't expect H-P's defection to sound the computer show's knell. Like the great fairs of the past, computer shows are more than just places where hardware is sold. Arthur Andersen, the Big Eight accounting firm, has had a booth at NCC for the last three years to explain that firm's computer consulting services. Book publishers, who are finding computer books increasingly important to their business, also show their wares. Engineers meet prowling headhunters, would-be entrepreneurs drink with venture capitalists, small outfits meet the press from all over the world and everyone gets a good look at the competition. And for the guy off the street who just wants to see what all the fuss is about, the big shows are a look into the future. ■

Office condominiums were to have been a lucrative new wrinkle for the country's commercial property developers. But guess who's holding the bag?

Condo bust

By Ellen Paris

A LOS ANGELES friend's three-year-old daughter is playing house in a discarded appliance carton. "Nice playhouse," says a visitor. "This isn't my house," replies the offended child. "This is my condo."

Now meet the latest by-product of California's—and increasingly the nation's—condomania: the office condo-

minium. What a compelling concept. Rather than rent space to individual tenants, the developer would sell it to them. The tenant becomes his own landlord, thereby protecting himself against crippling rent hikes and grabbing his share of the building's depreciation and other tax-sheltering expenses. The developer quickly unloads the building at about a 75% markup over construction costs. The

only loser in the deal would be the Internal Revenue Service.

But with few exceptions office condomania is a bust. No one knows how many office condos now stand empty. But in the Los Angeles area, builders are sitting on at least a dozen 30,000-to-60,000-square-foot buildings that were to be sold to tenants. They are now either empty or quietly being put on short-term leases.

Part of that overhang is a recently completed 60,000-square-foot building in Westlake Village, 30 miles north of Los Angeles. "We have temporarily taken it off the market as condos," admits Richard Darling, president of Los Angeles' City Equities, the developer. "We're leasing it now. We won't even attempt to sell it as condos until the market perks up."

But will the market ever perk up? A little reflection suggests that the office condo's potential customer pool is pretty shallow. Large companies don't need office condos; they can afford to build their own buildings or sign long-term leases with equity participation—commercial real estate's newest gimmick. That leaves sole proprietorships or small professional practices. But then again: What small



A Wilshire Boulevard condo for lease
"We think of it as inventory."

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businessman or professional wants to limit his earning power by limiting, over many years, the size of his office?

"In an office condo you have a finite amount of space," explains Ron Thacker, senior vice president of the real estate loan administration at Los Angeles' Metrobank, which has made no office condo loans. "An office condominium is really only good for a business that will stay the same size." And what kind of business would admit that to itself?

Beyond that, salesmen have to make some pretty heroic inflation assumptions to make the arithmetic favor buying over renting. In the Los Angeles area, office condos are listed for sale at an average of about \$200 per square foot—around \$300,000 for a well-apportioned three-office suite—versus monthly rents of about \$1.75 per square foot. Suppose you put down 20% and finance the balance of your \$300,000 office condo at 15% over 20 years. Monthly payments: \$3,160. Monthly depreciation: \$1,667. Monthly expenses: about \$625. Estimated aftertax buying cost to a taxpayer in the 50% bracket: \$1,089 a month. Figure an additional \$375 or so a month for the opportunity cost of your down payment, and your monthly cost is about \$1,464. But leasing the same space would come to only \$2,625, or \$1,313 after taxes.

What the salesmen play on, though, is that this situation won't last, that big inflation will return. Maybe it will, but the customers aren't buying the argument.

In a world where success breeds success and failure breeds failure, office condos have become today's bad news. "We have not made any office condo loans—neither construction loans nor permanent financing—because we are leery of the lack of success other lenders have had," reports Ralph Rivet, director of public information for Beverly Hills-based Great Western Savings. Rivet adds: "We are waiting for someone to come up with a successful formula."

The few lenders who are making construction loans have generally done so only if the developer can presell 40% to 50% of the project. What that means, of course, is that an early buyer could wait months, perhaps years, before taking possession of his office.

The developers could broaden the market and move some merchandise simply by slashing selling prices. Instead, they are trying to cover carrying costs by putting their condos on one- to five-year leases. Take Lec Frey. Frey is president of Los Angeles'

Developer George Woo

Ethnics are as important as economics: Now on his second commercial condo project, Woo aims at Asian customers.



Condo West and is completing a 41,000-square-foot office condominium on Wilshire Boulevard. Frey had hoped to sell the space at \$170 to \$264 per square foot. But with only 3,200 square feet of the project sold—and unwilling to cut prices—he has been forced to put his space on the rental market at \$1.70 to \$2 a foot. "We're thinking of it as inventory on the shelf that will be there when the market's ready," says Frey. He says he has been forced to do likewise with a building in Phoenix.

Where office condominium developments have succeeded, the reasons are as much ethnic as economic. In 1981 Los Angeles developer George Woo sold out a 28,000-square-foot complex of retail condominiums within nine months of completion. Woo is now on his second commercial

condo project: a five-story, 58,000-square-foot combination of offices and shops. Woo says he presold 40% of the new building before beginning construction. But Woo's projects are situated in Los Angeles' Chinatown and are aimed at Asian customers. Asians, Woo explains, traditionally tend to place a far higher premium on owning their business premises than their homes. Los Angeles developer Richard Hoag says he is ready to start construction on 50,000 square feet of office condos in the city of South San Francisco's Filipino district. And office condo developers in Miami report strong sales to that city's South American businessmen and investors, many of whom are cash buyers.

By and large, though, office condos are an idea whose time hasn't come and may never come. ■

Apple
invents the
personal
computer.
Again.





Introdu
The personal com

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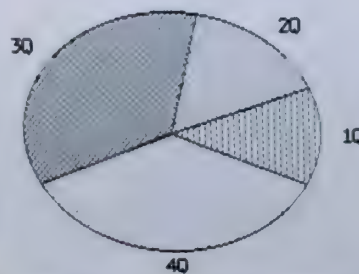
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Breakdown of Expenses

by Fiscal Quarter, 1982



Budget

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TOTAL

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Lisa



g Lisa. uter for the office.

The personal computer revolution began with easy-to-use computers and ready-to-use programs that made it possible for just about anyone to master personal computing in 20-40 hours.

Still, that's more time than many people can afford. Especially people who need personal computers most — executives, managers and small business owners.

But now there's Lisa™ by Apple.

Its hardware alone makes it the most powerful personal computer available:

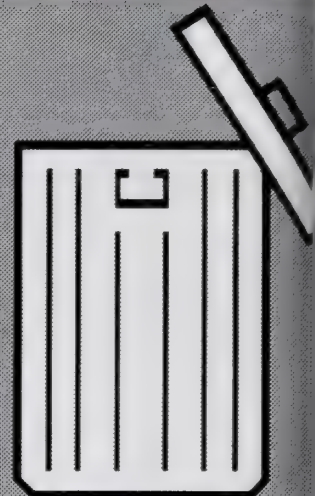
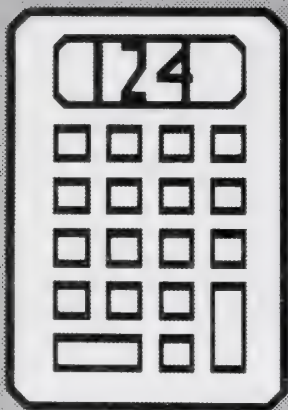
32/16-bit MC68000 micro-processor. 364 x 720 bit-map display. 1-Megabyte of internal memory. Dual 860-K disk drives plus a 5-Megabyte ProFile™ hard disk.

But the real story is the way Lisa puts all that power in your hands:

It's the first personal computer that's as easy to understand as your desktop.

Because that's precisely the way Lisa works.

So advanced, you al



To use a conventional personal computer, you first have to program yourself by studying the manual and learning a complex set of computer commands that vary widely from program to program.

Lisa replaces those commands with familiar pictures that work the same way from program to program. Files look like file folders. There's a

calculator, stationery, even a wastebasket. So you can work with Lisa the same familiar way you work at your desk.

To tell Lisa what to do, all you have to do is point to the appropriate picture using a clever palm-sized device called a "mouse." As you move the mouse on your desk, the pointer moves on Lisa's screen.

Lisa's extraordinarily powerful software takes care of all the details. So you can work with the system intuitively, right from

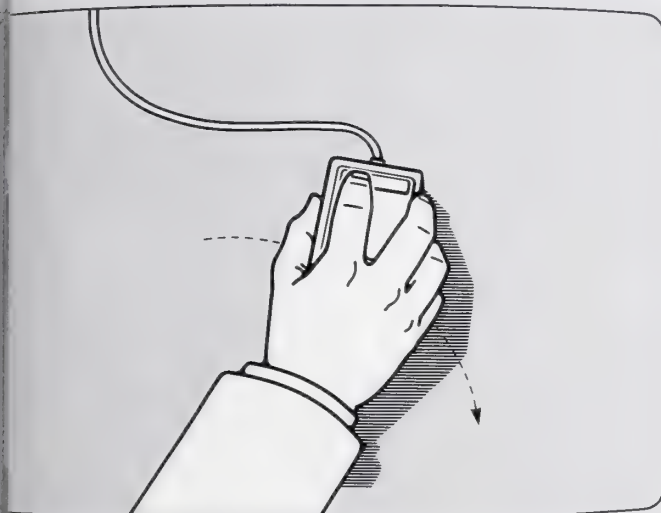
the start.

You can shape any kind of information you need — graphs, numbers, words, even pictures — and see it all side-by-side.

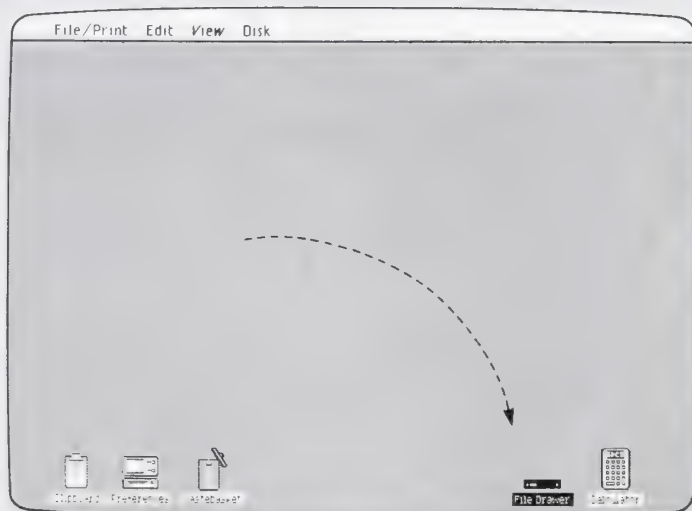
And you can transform that information in ways simply not possible with any other personal computer.

You concentrate your effort on what you want done — not on how to get the computer to do

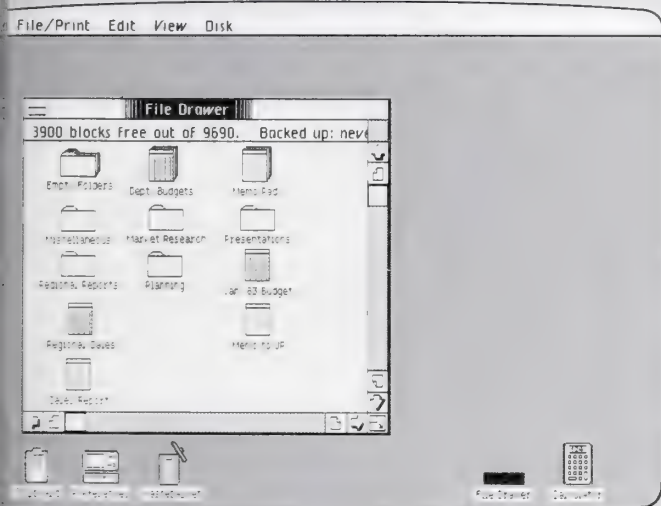
ly know how to use it.



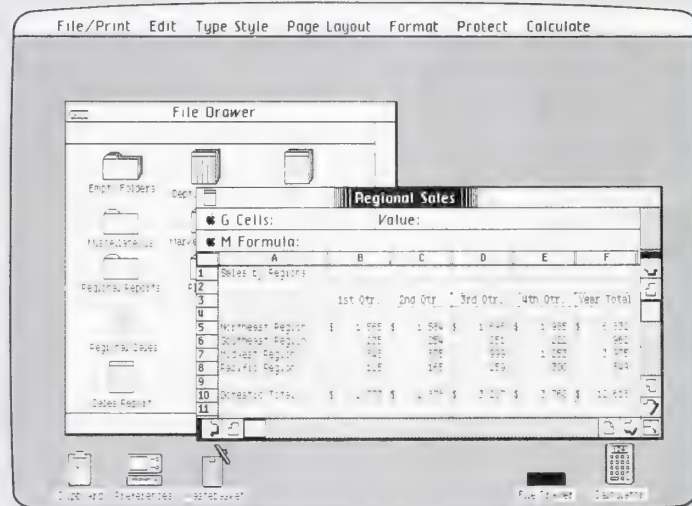
tell Lisa what to do, all you have to do is point. You control the pointer on Lisa's screen by moving the "mouse" on your desktop.



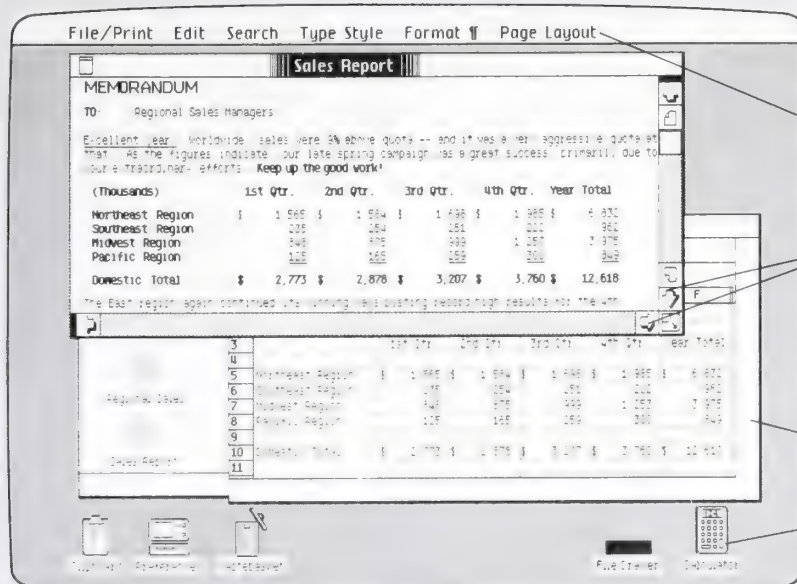
To open a Lisa "file drawer," you simply point to it by moving the mouse.



The "file drawer" opens and shows you all the documents inside. Now you can select one or more to work with.



You can stack documents as you would on your desk. Each becomes a "window" that lets you scan over a huge workspace.



All Lisa functions are selected with the pointer from pull-down menus in the Menu Bar, so you don't have to search through a manual.

By pointing to the arrows, you can scan left or right, up or down.

More than one document can be on the screen at once. In most cases, you can "cut" information from one and "paste" it into another.

Familiar symbols simulate the way you work at your desk.

It took 200+ programs you can

Lisa's software represents over 200 person-years of research, development and testing.

But the sole objective of all that effort was to make the most powerful office tools immediately accessible.

So you can begin producing useful work with a Lisa program in less than half an hour.

Lisa is available with six

integrated software packages covering every major business application:

LisaCalc electronic spreadsheet, LisaList electronic personal database, LisaWrite executive word processing, LisaGraph business graphics, LisaDraw design graphics and LisaProject electronic project management.

Taken individually, each Lisa application is a powerful professional office tool.

Taken together, they allow you to do things that simply weren't possible before.

Because Lisa's applications work harder by working together—information can be “cut” from one and “pasted” directly into another. So you can effortlessly turn figures into graphs, paste spreadsheets into a report, and print it all out while you move on to another task.

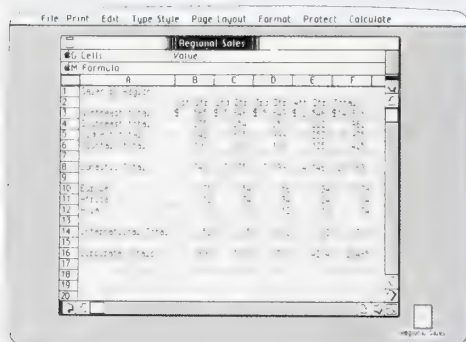
In the near future, with Lisa's designed-in networking capabilities, you'll be able to create a powerful network of Lisa workstations that can grow from one department to your whole organization.

And you'll also be able to communicate with other computers with Lisa terminal applications, so you can access valuable commercial data libraries like Dow Jones News and Quotes™ or The Source™, link with your company's own mainframe computers.

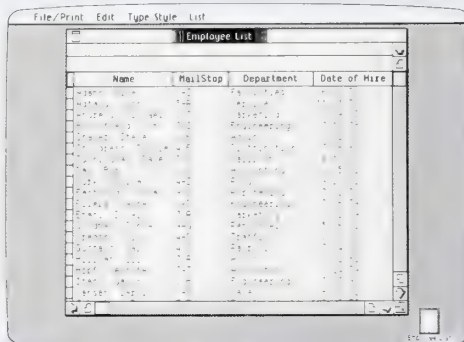
Of course, the only way to appreciate everything Lisa can bring to your office is to experience Lisa for yourself.

So give an Apple Personal Office Systems Dealer half an hour of your time.

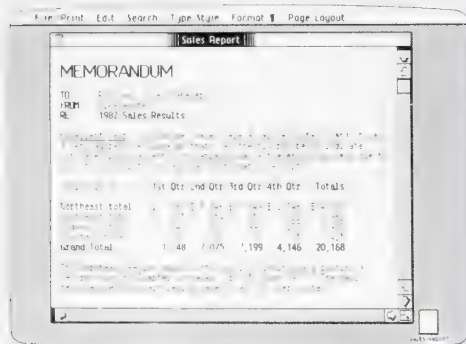
And he'll give you 200 years of ours.



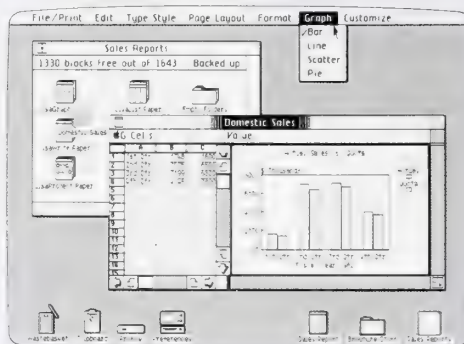
LisaCalc



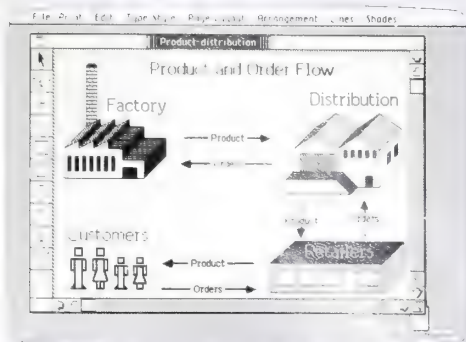
LisaList



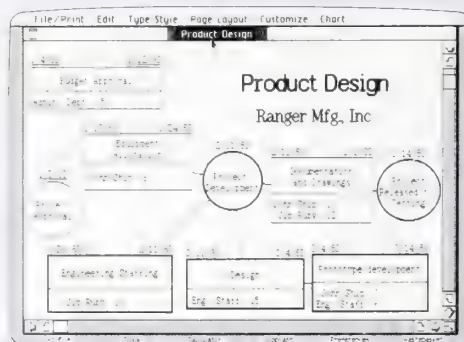
LisaWrite



LisaGraph

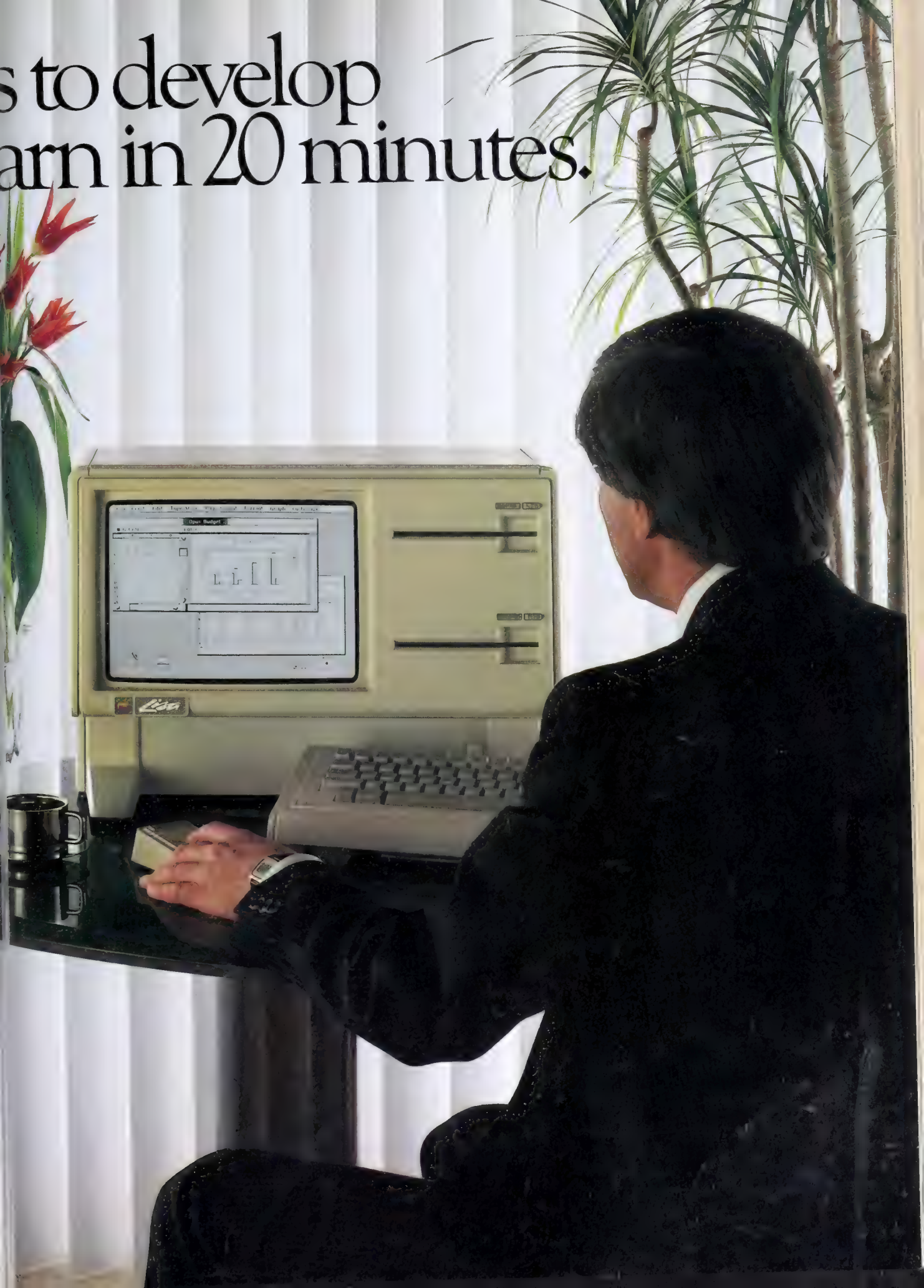


LisaDraw



LisaProject

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arn in 20 minutes.





Preferences

Wastebasket

Profile

Calculator

1983 Projects

Clipboard

Lisa

Lisa. It works the way you do.

Now that you know where the world's going,
consider the advantages of getting there first.

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Or, for the location of the autho-
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Program, call 800-538-9696.

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Lisa. Since you already know how to use it, you might like to know where to find it.

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AC3 Computing Products Center
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Huntsville
Anderson Computers
205-539-3444

ARIZONA

Phoenix
DataPlace Computer Store
602-266-6111

Tucson
Simutek Computer Products, Inc.
602-323-9391

CALIFORNIA

Anaheim
Powers Computer Company
714-778-6021

El Toro
Wabash Apple
714-768-3236

Glendale
Love Computers
213-240-3600

Huntington Beach
Gateway Computers
714-895-3931

Los Angeles
Computique
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Northridge
Rainbow Computers
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Orange
Computer City
714-974-3082

Palo Alto
Mission Computer
415-326-9689

Riverside
Computer Kingdom
714-787-1142

Sacramento
Capitol Computer Systems
916-446-3101

San Diego
Computer City
619-270-3100

San Francisco
Quest Computer Store
415-982-3753

San Jose
RAC Products
408-274-1915

Santa Barbara
Computer Plaza
805-687-9391

Sunnyvale
Computer Plus
408-735-1199

Walnut Creek
Infomax Computers
415-935-5153

COLORADO

Denver
Idex Business Computer Center
303-293-2299

CONNECTICUT

E. Hartford
ComputerEase
203-278-1080

Westport
Computerworks
203-255-9096

FLORIDA

Ft. Lauderdale
The Computer Works
305-491-8600

Miami
Kendall Computers
305-274-6312

North Palm Beach
Computer Center of Palm Beach
305-848-3801

Tampa
AMF Microcomputer Center
813-963-1504

Winter Park
Atlantic Business Computer, Inc.
305-677-7585

GEORGIA

Atlanta
Compushop of Georgia, Inc.
404-252-9611

Atlanta
Southeastern Computer Center
404-457-8465

ILLINOIS

Champaign
Byte Shop
217-352-2308

Chicago
System Source
312-726-7879

Northbrook
Northbrook Computers
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Oak Brook Terrace
Oak Brook Computer Center
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Beacon MicroCenter, Inc.
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Memory Bank
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Waterloo
Team Electronics #20
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KANSAS

Overland Park
Personal Computer Center
913-381-1155

Wichita
Hitech Computer Center
316-685-1131

KENTUCKY

Louisville
Computer Emporium #1
502-589-9482

LOUISIANA

Baton Rouge
The Computer Place
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New Orleans
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504-522-7332

Shreveport
Micro Business Systems, Inc.
318-226-8848

MARYLAND

Baltimore
The Logical Choice Inc.
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Baltimore
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They're deregulating the bus business. Does that mean we will see bankruptcies, price wars and drastic service cutbacks, as in the airlines? It doesn't seem likely.

By Jeff Blyskal

Leave the driving to Adam Smith



*Intercity buses at New York's Port Authority terminal
Rolling up to the free market.*

IF YOU HAVE BEEN following the story, bus deregulation probably looks like this to you: Thousands of little old ladies in out-of-the-way spots like Boonville, N.Y., Bushnell, Fla. and Walton, W.Va. are about to have their only link to medical help—bus service—eliminated.

It is classic "Big Business Steps on the Individual" journalism. But the truth lies elsewhere. Deregulation of bus services promises to benefit both the industry and the public.

To understand why, one must realize that the bus business is made up of two distinct markets. Last year only 44% of the industry's 375 million passenger trips came from regular route service. Greyhound and Trailways dominate 80% of that market.

But the other 56% of the travel was on tour and charter buses. Of some 1,200 applications for new routes since the Bus Regulatory Reform Act of 1982 took effect last November, 1,070 are for tour and charter service.

That's important, because tour and charter is highly flexible and more profitable than regular route service. Why more profitable? Because if no one wants to ride, there's no need to run an empty bus down the road, as Greyhound must do on its regular route service.

Since competition is minimal between regular route and charters, few are worried about \$1 billion-a-year Greyhound driving small charter bus companies off the road under deregulation. The industry's top dog, Greyhound, does about \$100 million in charters. But "we can't compete with these small guys," says Frank Nageotte, chief executive of Greyhound's transportation group. Why not? Blame Greyhound's high-priced union drivers. Although most drivers in the industry are unionized, Greyhound drivers—who have strength in numbers—get paid about \$2,000 more per year than the average.

Of course, tour and charter is not all a picnic. Plenty of new operators are crowding in, and some are being crowded out. But even the American Bus Association projects that this industry's profits will rise 50%, to \$75 million, in 1983, on 10% higher revenues of \$2.3 billion.

Since most smaller bus companies depend on charter rather than regular route service, the brunt of any price- and route-cutting that may follow deregulation will fall on Greyhound, Trailways and some large regional carriers. Last summer Trailways started a price war by reducing fares as much as

Two-way street

Some of the loudest grumbling over bus deregulation involves New Jersey Transit. This state agency operates 2,200 buses and nine rail lines that carry 450,000 suburban commuters within New Jersey and to and from work in New York and Philadelphia. NJT is currently improving its rail service and buying 1,600 new buses—700 of them from Greyhound's Motor Coach Industries, the largest commuter bus acquisition ever. All this costs roughly \$1 billion, financed with taxpayer money from the New York/New Jersey Port Authority and matching federal funds provided by the Urban Mass Transit Administration.

The problem is that NJT is doing more than merely hauling commuters. "Their [charter] buses are down here in droves," complains Norman Sherlock, head of the American Bus Association in Washington, D.C. Operators from as far away as Florida are up in arms about NJT, too. "It was never the intent of deregulation to allow subsidized transit companies to



*A New Jersey Transit intercity bus
Newark, Trenton, Disney World.*

engage in widespread tour and charter business against private carriers," says Sherlock.

NJT takes in about \$6 million annually from tours and charters. But its managers point out that buses purchased with UMTA money can only be chartered when commuters aren't using them,

which limits their tour and charter duty to weekends, holidays and off-peak hours. Longer trips by NJT's New Jersey Tours subsidiary, which goes as far afield as Nova Scotia, Disney World and Yellowstone National Park, use 39 special buses that were paid for through the sale of state bonds. "We have authority to serve 48 states, and we are complying with our tariffs and UMTA restrictions," says Albert Hasbrouck, NJT's assistant executive director for compliance.

Despite its free-enterprising ways, NJT knows the value of government protection. The firm lobbied to make sure that federal deregulation didn't open the door to allow interstate operators to make the lucrative runs between points in New Jersey and Atlantic City. At the moment, however, private carriers and the ICC are ignoring that limitation—and Hasbrouck isn't happy. "We don't feel competition in the bus industry is good for New Jersey," he says—meaning it isn't good for his agency.—J.B.

60%, and both companies took a bath. After deregulation, which made hiking fares easier, "price-cutting has been isolated, not widespread," says Harold Morgan, the ABA's director of research.

However you slice it, bus deregulation is unlikely to bring the chaos, confusion and heavy operating losses deregulation brought to the airlines. Competition may heat up in specific routes. Before deregulation Trailways was barred from many of Greyhound's lucrative routes. Now it has access to them. That will make Trailways more of a threat to Greyhound, rather than the other way around. "We probably won't go after many of Trailways' routes," says Greyhound's Nageotte. "Not because we're good guys, but they don't have much that we want." Not that all is sweetness and light between the two big competitors. Scenic Trailways, a Trailways affiliate, recently sued Greyhound, alleging that the big carrier shut Scenic out of terminals in Wisconsin.

What about small bus companies nipping at Greyhound's and Trailways' good routes? Deregulation will open some doors to them, to be sure. Blue Bird Bus Co. of Olean, N.Y. is one of many eager competitors. It

plans to go against Greyhound between New York City, Buffalo, Rochester, Syracuse and other upstate points. "I want to give it a try," says Louis Menano, Blue Bird's owner.

Greyhound now charges \$50 to go from Buffalo to New York. Menano, who needs \$1.80 per mile (about \$700 to cover costs to Buffalo) is charging \$30 and breaks even at \$20. "I can be very competitive," he says. Meanwhile, Blue Bird's downside risk is nominal: 94% of its business is in tour and charter.

But Blue Bird is something of an exception. Few independents are willing to risk the capital to go against the established giants.

If competition in the bus business does hurt profits, analysts think that operating efficiencies will offset the negative effect. The new rules make scheduling more flexible and enable carriers to react quickly to market and seasonal conditions. Intrastate rates, long held down by many state regulators pandering to consumers, are now moving toward equality with interstate rates. And Greyhound has been able to unload a lot of junk from its route system. It has applied to abandon 1,500 stops that are unprofitable because of low ridership or out-of-the-way locations.

That does have some of rural America up in arms. Greyhound, however, is not eliminating whole routes but merely stops along those routes. That can save big money, since many of the abandonments have very little traffic. A bus may have to get off the highway and travel ten miles, only to find no one at a remote stop. Take the Watertown to Utica, N.Y. bus run, which goes through Boonville. "Sometimes you might have seven people riding that bus," says Barnett Rukin, president of New Jersey's Short Line Bus Co. If the real cost of riding the bus came out of those seven people's own pockets, how long would it be before they all decided to walk?

And they probably won't have to walk. Small commuter carriers filled voids left when trunk lines pulled out of low-traffic airports. Limousines or vans could do the same on the ground. Just as a 727 isn't the only way to fly, a \$155,000 intercity bus isn't the only way to ride. Shuttles and taxi services could fill much of the gap.

Folks in Boonville, meanwhile, needn't despair. New York State is searching for a contractor to provide essential service there. "They'll probably pay someone a \$75,000-a-year subsidy," says Rukin.

What deregulation giveth. . . ■

Margaret Thatcher's huge majority is a powerful five-year license to combat the trade union abuses that have all but crippled British business. . . .

Taming the "bullyboy"

By Rosemary Brady

BLACKMAIL and intimidation," muttered the trade union leader outside a British Leyland car plant near Oxford. There just had to be a plot somewhere: 5,000 BL workers had voted down his call to go out on strike in order to preserve three minutes of end-of-the-shift wash-up time.

In April those same 5,000 workers had closed the BL plant for four weeks over the wash-up time, costing BL an estimated \$150 million in lost car sales. But in July they voted to take a one-payment settlement of \$80 and to forget about the wash-up time.

Give some credit to Margaret Thatcher's stunning reelection margin. Change is in the air, and even the unions know it. The workers are less in awe of the union bosses and slower to do their bidding. In 1979, Thatcher's first year, British industry lost 29.5 million working days through strikes. Last year it lost only 5.2 million days. Labor productivity has sharply improved, and pay raises dropped from the 18%-to-20% range to around 6%.

"The whole climate of industrial relations in Britain is changing," says Stephen Wood, lecturer in industrial relations at the London School of Economics.

Thatcher took the offensive again late in June in her opening speech to the reassembled House of Commons, with its 144-seat Conservative majority. "All too often we hear trade union leaders defending overmanning and inefficient working practices as if they were defending their members' jobs. The truth is, the unions are destroying the very jobs they claim to defend."

Step by step her Conservative government is building a framework of

laws that make union leaders answerable to their members and open union funds to civil lawsuit.

In her first four years as prime minister, Thatcher outlawed secondary picketing and sympathy strikes, made it possible for employers to sue union funds for civil damages and made a dent in the powerful closed shops dominating many work places. Beginning November 1984, all union members in closed shops will have to vote to decide whether their jobs should remain available only to union members.

Now she is pushing for "freedom of the individual union member." Employment Minister Norman Tebbit has released proposals for promoting "democracy" within the trade union movement. Union members will be granted the secret ballot to elect governing bodies. Unions would also be liable for damages if leaders call strikes without first polling members. "The ballot box, not the bullyboy, shall prevail," Thatcher declares.

All this has Labor's left wing waving the bloody flag. "Mrs. Thatcher is interfering with the rights our forefathers fought for," declares Britain's most militant union leader, National Union of Mineworkers' President Arthur Scargill. "My advice to the trade union movement is to take extraparlimentary action to defy the government's legislation."

But not all of the union leaders echo this thinly disguised call for violence. More moderate leaders, such as Len Murray, general secretary of the Trades Union Congress (Britain's equivalent of the AFL-CIO), say Scargill's suggestions are "plain daft." Most union members seem to agree. Scargill's own members twice rejected calls for nationwide miners' strikes this past year. His chances of riding to power on a

wave of working class indignation seem very thin.

Is unemployment making British labor more docile? The 12.5% jobless rate may make workers cautious, but the cause of labor's decline seems to lie elsewhere. In fact, more and more workers consider themselves middle class, not working class. More and more workers have highly skilled jobs, take European holidays, own homes, pay mortgages. Some 47% of homeowning workers voted Tory in this year's elections.

Yet, British unions still wield enormous power. As things now stand, collective bargaining agreements are not legally enforceable in Britain, as they are in the U.S.; unions can give their word, then break it with impunity. So far, Thatcher has not been willing to tackle the unions on this one.

The *Financial Times*, one of the world's great newspapers, has been closed for a month over a pay dispute involving 24 print machine minders. The striking National Graphical Association stubbornly refused to stick to an agreement to accept a mediator's ruling, even though the agreement was reached after several days of negotiations and underwritten by the Trades Union Congress.

Another big problem is strikes in the public sector, where big unions in state-controlled industries crush efforts to hold down pay boosts. Earlier this year 28,000 water workers forced the entire population to flush their toilets sparingly until the union could wring a 10% average pay raise from the government. Some employers want the government to ban strikes in the public services.

But Mrs. Thatcher is smart enough to move step by step. One of her predecessors, Conservative Prime Minister Edward Heath, learned the lesson of doing too much too fast in 1971. Virtually overnight, he radically reformed industrial relations in Britain through an omnibus bill modeled after the Taft-Hartley Act. Strikes against the new act and his pay policies drove him to call a general election in 1974, which he lost. His Labor Party successor repealed the act.

What Thatcher aims to do is not only pass laws but also convince the British people, workers and managers, that change is for the good.

At the Vauxhall Motors car plant outside London the work force has dropped from 16,000 to 9,700, but each worker is producing twice as many cars. Sam Price, the Vauxhall plant manager, sees it like this: "It's not all strawberries and cream. But it is more of a winning act." ■

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It is here that a design concept called *Group Value Engineering* proves invaluable.

A typical Mazda G.V.E. project team will include people from a variety of disciplines—engineers, designers, layout planners, and people

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A Mazda's quality and cost is also determined "downstream,"

uring pro-
duction.

Here our
people, work-
ers and man-
agement alike,
provide an
edge in quality
that is difficult
to come by.

By adher-
ing to thou-
sands of qual-
ity standards
that we've
established for
the work that
goes into a
Mazda, our
people build
quality into our automobiles at
each step in the production
process.

In a sense, they treat each
other as customers. For just as
we will not sell an automobile
that hasn't met quality stan-
dards, they will not allow sub-
standard work to move forward
to the next person on the
assembly line. In fact, workers
can bring the assembly line to a



*By pressing a
button, work-
ers can call for
assistance or
even halt the
assembly line.*

meet in small groups to solve a
variety of job-related problems.
In the process, they gain a
strong sense of personal
accomplishment and mutual
respect for fellow workers.
Moreover, their involvement
results in the continuous evolu-
tion of the quality of work
at Mazda.

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Consider how the ten members
of the Young Craftsmanship MQ
Circle improved the quality of
their work, and their work
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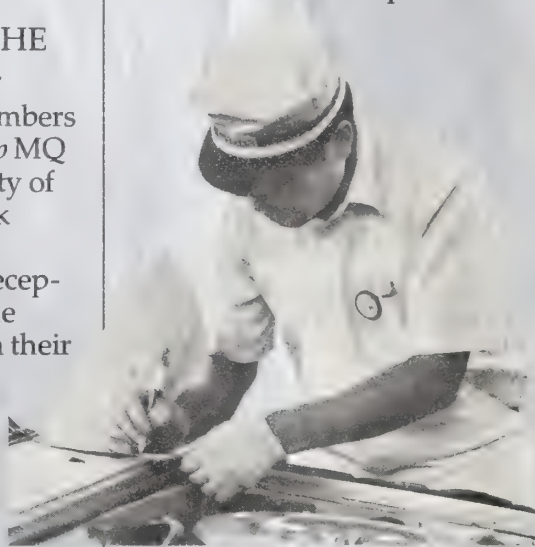
Their objective was decep-
tively simple: to reduce the
walking distance between their
supplies of parts and
the points on the
assembly line where the
parts are used.

The distance wasn't
far. A little more than
eleven steps. But over 3½
months, Circle members, work-
ing with their supervisor,
succeeded in reducing the dis-
tance to fewer than seven steps.

dramatic results.

For example, a tighter bunch-
ing of parts supplies eliminated
two assembly line work stations
and freed space for future
operations.

Also, as the result of more
precisely standardized assem-
bly procedures developed by
Circle members, the per vehicle



*By meeting quality standards, our
people build quality into our automo-
biles at each step in production.*

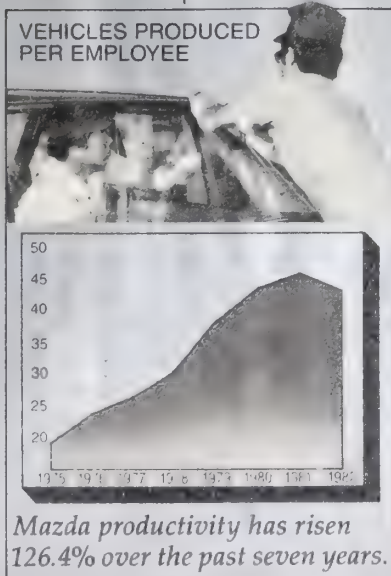
OF MAZDA

halt simply by pressing a but-
ton should the situation war-
rant it.

Our people
have also assumed
responsibility for
improving the
quality of the work
procedures used
to meet produc-
tion standards.

More than
18,000 Mazda
people demon-
strate this respon-
sibility through
voluntary parti-
cipation in Mazda
Quality Circles.
Circle members

And reduced a walk of about six
miles a day to one of only about
3½ miles.



ANOTHER QUALITY EDGE FOR MAZDA.

But a shorter
walk isn't all
that was accom-
plished. Circle
members contri-
buted more
than 240 ideas
aimed at improv-
ing the quality of
their work. And
the adoption of
their ideas had

defect rate—.0078 to start
with—was further reduced by
48.7%. Which provides another
edge in quality for Mazda.

By meeting quality stan-
dards, and actively seeking
ways to improve work pro-
cedures, our people continue to
prove that *commitment to quality*
isn't just an abstract concept.

It's a tangible part of every
Mazda—an expression of con-
science on the part of people
who care enough to achieve the
highest quality possible.

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Two things make Peter Kiewit Sons' unique among giant companies these days: It is employee-owned, and it is sitting on a mountain of cash.

The ultimate meritocracy

By Jill Bettner

IN THE MEGABUCKS construction business, the contracts aren't coming in as they used to, and it's good to have a few sidelines and a little cash. Lucky Peter Kiewit Sons', Inc., the big Omaha-based builder, has a little put away—more than \$660 million in cash and marketable securities—and is looking to add to its sidelines.

Peter Kiewit, with \$1.5 billion in revenues last year, also is among the top ten coal producers: 20 million tons of western coal yearly, sold mostly on long-term contracts to utilities.

So, what's on Kiewit's shopping list? Walter Scott Jr., who took over as chairman, president and chief executive in 1979, tells *FORBES* that he wants to try his hand at mining gold in the West. Selling gold, or maybe silver, at spot prices "would give us another, completely different kind of market from any we're in," he says.

Gold? Why gold at a time when the price of gold is down more than 50% from its alltime high and when deflation—which is bad for gold—is in the air? Why, indeed. "Gold has an unlimited shelf life," says Scott, who doesn't expect the price to be depressed forever. "Everything our government does and every other go-

vernment does tends to create inflation," he adds.

To limit the startup risk, he is considering a joint venture similar to his two coal-mining partnerships with Union Pacific and Pacific Power & Light. In yet another diversification move, Kiewit has taken an 18% stake in Mapco Inc., the Tulsa, Okla. energy

outfit, and Scott and his financial right hand, a New York-bred lawyer named Donald Sturm, sit on Mapco's board of directors.

Peter Kiewit Sons', with 2,000 engineers, is best known for winning public works contracts, among them more than \$2 billion of federal interstate highways. The business was the creation of the late Peter Kiewit, who built the construction giant from his father's masonry business. Kiewit died almost four years ago, and his estate had been directed to sell the company back to its employees. Some 800 of them are currently shareholders, but they must sell their shares back to the company at a price reset every year—when they retire or move on. The board adds new shareholders at the recommendation of district managers and its executive committee.

Kiewit hated publicity and rarely talked with the press. But now the company is trying to broaden its business. Scott, who stepped into the top job when Kiewit's immediate successor, Robert Wilson, died of heart-surgery complications, has raised the curtain a bit and agreed to talk with *FORBES*.

The Kiewit company isn't the largest, either in construction or coal mining, but it makes a good profit in both. Earnings last year rose 14%, to "in excess of \$100 million," Scott said, as close to the real figure as he will go. Outsiders put the number at perhaps \$140 million. That compares with \$153 million earned by competitor Fluor Corp. which is nearly five times Kiewit's size.

Scott's father was a Kiewit engineer and confidant. The younger Scott, now 52, joined the company as an engineer right out of Colorado State University. He worked closely with both predecessors and hit the ground running when he took charge. Almost immediately he landed contracts for two giant public projects. One, the Ft. McHenry tunnel, will route eight lanes of Interstate 95 traffic under Baltimore harbor when completed next year. At \$426 million, it is the largest highway-building contract ever awarded.

Scott was also low bid-



Peter Kiewit Sons' Chief Executive Walter Scott Jr.
"Gold has an unlimited shelf life."

der on \$400 million of facilities for the Washington Public Power Supply System. But the troubled WPPSS is a sign of the times he inherited.

High interest rates had begun to push big public building jobs off the drawing board. The U.S. Army Corps of Engineers hasn't started any civil projects in four years. Like other domestic builders, Kiewit had turned to synthetic fuels projects to take up the slack. But when the oil-price bubble burst, Scott's backlog started shrinking. Since then it has slipped below \$1 billion, down about 10% from last year. Hence the urge to diversify. Hence the urge to become better known and to go after smaller jobs.

Kiewit did nearly \$1 billion of work on the Alaskan North Slope oilfields, but "we've also paved driveways in Phoenix," says Ken Stinson, who last year became the company's first business development manager.

Nearly 80% of Kiewit's new contracts last year were for jobs under \$1 million. "We're basically opportunists," says Scott, meaning that when times are tough, you take what you can get. Recently the push has been to get more work like the \$27 million office high-rise he's building in Los Angeles for real estate tycoon David H. Murdock.

But Kiewit still is winning some very big government jobs. Among its new work is a \$208 million dam and hydroelectric plant for Canada's Saskatchewan Power Corp., a \$129 million hydroelectric plant for the Alaska Power Authority on remote Kodiak Island and \$39 million of urban transit work in Miami, Baltimore, Boston and Atlanta. Says Scott of such high-risk, fixed-price contracts: "We love 'em."

Of course, contractors, particularly those dealing with government, aren't likely to be mistaken for a choir of angels. Two former top officers of Kiewit-owned construction firms in Nebraska and Kansas went to jail two years ago for bid-rigging. They were convicted of conspiring with several other contractors in the late 1970s to fix highway contracts.

Peter Kiewit Sons' also pleaded no contest in 1981 to rigging bids that were let by the Army Corps of Engineers between 1970 and 1976 for Missouri River stabilization work. To date the company has been ordered to pay \$5 million in fines. A Colorado grand jury also recently indicted the company on more antitrust charges, involving highway building, stemming from the Justice Department's continuing probe. Because of the scandal, Scott reorganized the con-

"Only the best"

In the 1930s the late Peter Kiewit concentrated on Public Works Administration projects; in the 1940s, defense contracts. In the 1950s he turned to highways and missile sites, then to nuclear power plants and urban transit in the 1960s and 1970s. He had an almost uncanny feel for where the action was going to be.

His father, Peter Kiewit, a son of Dutch immigrants who settled in Omaha, started a masonry business in 1884. By 1912 that was Peter Kiewit & Sons. Young Peter, one of six children, worked for his father on weekends and vacations as waterboy and carpenter's helper, hoist operator and bricklayer. After a year at Dartmouth he came home and worked in the family business full time. In 1931, after other family members had mostly dropped out of the business, young Pete formed his own company, calling it Peter Kiewit Sons'. Actually a tribute to his father, the name has caused confusion ever since.

No job was too tough. In 1951 he sent 5,000 men to build Thule Air Force Base in Greenland, north of the Arctic Circle. They lived in tentlike huts there and worked 12-hour shifts, seven days a week, for more than two years.

He wore out men who worked closely with him with his energy. He was a fanatic about health, nagging others who were overweight. Those who produced were well rewarded with shares in the company. Still vigorous until his death, at age 79, in 1979, he left a signed contract

that carried out a plan to keep control of the company in the hands of its employees generations later. As he wished, his own controlling stock (a special category of shares) was canceled. His 40% of the dividend-paying shares were sold back to the company at their then current value, enriching the pot for the other employee-shareholders. "He made about 100 people here millionaires," says one older manager.

Kiewit's son and only surviving child, Peter Kiewit Jr., 57, a Phoenix attorney, is a director of the construction company. But, as a noncompany employee, he owns no stock. Nor does Kiewit's widow and third wife, Marjorie, who lives in Palo Alto, Calif.

Kiewit's controlling stock in the Omaha *World-Herald* is also being sold back to its employees. He bought the city's sole daily in 1962 to keep it from going to publisher Samuel Newhouse, an "outsider."

Through the Peter Kiewit Foundation, much of the income from the rest of his \$200 million estate continues to benefit the midlands, especially the University of Nebraska.

It also benefits Rancho Mirage, Calif., where Kiewit had a home, though he frequently used his penthouse apartment atop Kiewit Plaza in Omaha.

White-haired in his later years, he looked and preached to his engineers like the Presbyterian elder he was. "I don't care if we're the biggest," he is remembered for often saying, "only the best."—J.B.

struction business last January. Kiewit now operates as a regional contractor under five new names, though it continues to do work as Peter Kiewit Sons' Co., a subsidiary. It also has a Gilbert group of construction companies, generally operating as nonunion builders.

Besides its construction business and the two coal-mining ventures it is a partner in, Kiewit has two coal mines of its own in Wyoming. Five other subsidiaries quarry stone and produce other building materials.

Scott still runs the company with Peter Kiewit's nose-to-the-grindstone fervor. Top managers are required to attend his regular Saturday morning status meetings. Typically, they all travel four of the five regular business days, visiting job sites or drumming

up new work.

Perhaps Kiewit's most distinguishing characteristic is the high degree of employee loyalty, at least among managers. At the lowest management level, field superintendent, the average tenure is 15 years. Among executives, it's 26 years. This in a business notorious for turnover. But then why shouldn't the executives work hard and loyally? After all, they are working for themselves.

"It's the ultimate meritocracy," says fellow Omahan Warren Buffett. The master investor shares office space with Kiewit headquarters in Kiewit Plaza downtown. "I know of no more successful business record in the U.S.," he says. Buffett doesn't throw praise around lightly. That's quite an accolade. ■



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Sweat-shirtsville, Va. shows that, even in the rag trade, smart companies can whip the imports and earn fat profits.

Golden fleece

By William Baldwin

THEY CALL Martinsville, Va., a little city near the Blue Ridge Mountains and the North Carolina border, the "sweat shirt capital of the world." It also is the apparel profit wonder of the U.S. Almost everywhere else, the clothing business, at least for mass-market, private-label manufacturers, has been in distress, thanks to cheap foreign imports and the recession. But not in Martinsville, where three medium-size firms crank

out their sweat shirts, jogging pants and extraordinary profits.

Tultex, largest of the three (sales, \$231 million), earned \$12.7 million in fiscal 1982, up 25% from 1981, and \$4 million in this year's first quarter, up 350% from last year. Bassett-Walker's \$24.2 million net on sales of \$192 million last year gave it a profit margin a tad less than IBM's and three times the average for the apparel industry. Pannill Knitting's \$145 million sales generated earnings of \$19.6 million for a 36% return on equity. Its

balance sheet is nearly debt-free.

Unlike most of the clothing industry, which is divided into big fabric-makers and a huge number of mostly small garment shops, the Martinsville three are integrated. They start with yarn—Bassett-Walker and Tultex even make some of their own yarn from raw fiber—and end with a packaged garment. For the bulk of their business all depend on knitted "fleece" fabrics, which have a furry nap on the inside. All have sales offices in, among other places, the Empire State Building, where they compete for private-label contracts from chain stores. They all owe their existence to a man named Will Pannill.

Eighty years ago Pannill was working in a Mayodan, N.C. cotton-spinning mill when he decided the South should invade the lucrative knitted-underwear business, then the exclusive province of northern textile mills. Pannill got a janitor's job in Utica's largest underwear factory and took surreptitious notes. He returned to establish a succession of knitting shops. He founded Pannill Knitting in 1926, helped a friend start one of Bassett-Walker's predecessor firms in 1928 and broke off part of Pannill Knitting to create Tultex in 1937.

When Pannill died, in 1940, the conversion from long johns and



Bill Pannill, president of Pannill Knitting and son of Martinsville, Va.'s knitted-underwear pioneer. Proving that you can make a 36% return on equity manufacturing apparel in the U.S.

bloomers had only begun. But it was not a difficult change. In those days underwear was often fleeced—that is, after being knitted it was run through a “napper” that tore up one side of the fabric to make it fuzzy. The knitting machines Pannill bought secondhand 57 years ago are still clanking, three shifts a day. His family is carrying on strong, too. Son Bill Pannill, 56, has been running Pannill Knitting since 1966, and over the past decade has pushed its earnings per share up 3,800%, to \$45. Son-in-law William Franck, 65, has run Tultex since 1953, taking it on a 140-fold sales gain.

The sweat shirt kings are in the right place at the right time, making clothes for joggers. Martinsville's firms have done a stunning job of turning a fitness fad into a fashion fad, one that shows no sign of running out of breath. As for the place, that has been these companies' strength since Pannill's day. In the hilly Virginia countryside live conservative, diligent workers who vote down unions and accept wages of \$5 to \$7 an hour. You can live pretty well on that kind of money in a town like Martinsville, especially if you have a working spouse. Many of the employees are wives of men who work in furniture factories, Martinsville's other industry. That is why Will Pannill picked this spot.

“I like it here. Even on a day when I'm sick I can make \$75,” says Anna Phillips, pausing to break her pace for only a few seconds. She is a 52-cents-a-box inspector at Pannill Knitting's plant in Floyd, a town of cows and tin-roof shacks in the Blue Ridge Mountains. It is one of 14 satellite cut-and-sew plants that Martinsville's factories have scattered outside the city, the better to tap into rural labor. Her sister and mother-in-law also work there, making something closer to the \$40-a-day average for sewers. “If you work for the Pannill Knitting Co., you're going to have a good life. You might not get rich,” says Paul Mattox, a Pannill salesman who married one of Will Pannill's granddaughters.

But will the good life be smothered by cheap labor in some place like China? Martinsville worries about it constantly. “There's no way to compete

Knitting room at Martinsville sweat shirt plant
Three shifts a day, even for the oldest machines.



with a communist country. All they want is to keep their plants running and earn hard currency,” says Bill Pannill. “If Bassett-Walker got wiped out, Tultex and Pannill would be wiped out, too,” says Dudley Walker, 52, chief executive of Bassett-Walker and son of its founder. “Between the three we employ 15,000 statewide and almost a third of the labor force in Martinsville and Henry County.”

So far imports have captured perhaps a fourth of the rapidly growing U.S. market for fleeced clothing, not enough to hurt Martinsville. Indeed, these companies expect to add 1,200 jobs among them this year. One reason the domestic industry is healthy is the comparatively low labor content, and high weight, of the product. The simplest cotton-acrylic pullover sweat shirt, an item the Martinsville outfits all wholesale for \$4.38, takes six minutes to sew—70 cents' worth of labor, including fringe benefits. With packaging it weighs almost a pound, meaning that getting it across the ocean would eat up most of that 70 cents, the most that even the lowest-labor-cost nation could save on the sewing. Exporters in the Far East, meanwhile, are bumping against quotas imposed by the U.S., and they would rather fill the allotment with

more labor-intensive goods like blouses. The fleece items that do come in tend to be slower-selling items with lots of flaps and zippers, and hence, labor.

At a Tultex warehouse, small assortments of sweat shirts, already price-tagged, lie in separate baskets for shipment to individual K marts. “Service has a great deal to do with it, and styling,” says Walker, whose firm is building a 500,000-square-foot distribution center. “Five years ago the Rumanians decided to sell sweat shirts. One of my customers purchased some of his requirements from them. At the end of the season he said, ‘Even though they're a whole lot cheaper, I can't afford to go with them.’”

Vertical integration is another strategic advantage, since the U.S. can beat poor nations in the knowhow and capital that go into fabricmaking. China probably can't equal Tultex' computer-controlled dye-matching and patternmak-

ing. Nor could a poor nation keep up with the \$7.5 million modernization going on in the cotton mill where Will Pannill started out. Bill Franck, the son-in-law at Tultex, bought the 88-year-old mill last year, after years of management neglect had put it in bankruptcy. He's installing Swiss spinning machines with rotors that run at 80,000 revolutions per minute and with robots that unload the filled cones of yarn. When that's done Tultex will have cut the number of yarn workers at the mill from 250 to 100, while increasing capacity 60%.

Bill Franck isn't stopping there. Not content with private-label work for chain stores, he is also developing Tultex' own sportswear brands, such as Nautilus under a royalty arrangement with the Nautilus fitness centers. “China will in all probability someday get into the business in a big way, but I feel there's going to be sufficient time to get into areas they can't touch, like fashion,” he says.

Like his two local competitors, Franck hasn't had to try one obvious escape hatch: offshore sewing. A tariff regulation allows firms to make and cut fabric here, have the sewing done where labor is cheap and pay duty only on the value of that labor.

Martinsville doesn't welcome com-

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petition from abroad, yet international trade hasn't been all bad. In 1980, before the dollar strengthened, Pannill did 30% of its sales in Europe, Bassett-Walker 9%. Thanks in part to the threat of cheap imports, the Martinsville firms have made themselves low-cost producers. How do they stay competitive? Tultex' Swiss spinning machines, its German driers, its oxal-

ic acid from China, all help.

More imports from the Pacific rim are inevitable, notwithstanding that the textile and apparel industry is one of the most heavily protected in the U.S. (see story below). The complicated country-by-country quotas haven't stopped textile and apparel imports from climbing over the past two decades from \$1 billion to \$9 billion.

Where does that leave Martinsville? Vulnerable but not doomed. These firms can adapt—with new fashions, computerized distribution, faster machinery and perhaps, someday, new satellite plants in Mexico or Costa Rica. In an increasingly international economy they must keep working smart, but there is no reason they can't thrive. ■

The clothing industry is one of the most heavily protected in the U.S., but the imports keep growing, as do the quota restrictions. Is there a better way?

The Byzantine web

EXCLUDING BUSINESSES with a national security element, like the Merchant Marine, what is the most heavily protected U.S. industry? Without a doubt, says William Niskanen Jr., a member of the Council of Economic Advisers, textiles and apparel—"both in higher tariffs and in this Byzantine web of country-by-country, product-by-product quotas." So far this year, in an effort to push back a tide of imports that ran 22% ahead of 1982 levels in the January-April period, the Reagan Administration has imposed 54 new quotas, including sweeping restrictions against China.

U.S. textile protectionism is as old as the Tariff of 1816, but the quota system has its origins in President Franklin Roosevelt's Cabinet Textile Committee, which cracked down on Japan for selling cotton cloth here too cheaply. It's clear why this industry is so sheltered: 1.3 million jobs are at stake in garment sewing, another 750,000 in fabric making, at 22,000 firms situated in every state. What is far from

clear is whether quotas are the best way to protect U.S. interests.

Because the quotas are country-by-country, not global, the temptation to cheat is high. The Customs Service must determine whether a load of jeans arriving from Indonesia with Indonesian labels was actually made there. Even if it could police foreign factories, that would not solve the problem of "island hopping." When sweater quotas were imposed against

Hong Kong and Taiwan, knitting machines popped up overnight in the Maldives, off India. Each category from each country needs a separate Department of Commerce investigation before a quota can be set. "It's like stepping on ants," gripes lobbyist Larry Martin of the Man-made Fiber Producers Association.

Economists find another fault with this system: It's a giveaway to foreigners. The rights to export into the U.S. are assigned to foreign nations, which hand them out to their own citizens, usually under some grandfather clause. These rights are valuable. U.S. quotas were recently trading in Hong Kong at \$60 a dozen for sweaters, \$29 a dozen for jeans. This represents the spread between what the products are worth in the restricted U.S. market and what they cost to produce in the Far East, ship over and move through customs. Quotas, according to CEA member Niskanen, are equivalent to tariffs coupled with a cash grant-in-aid to foreigners.

Beyond the question of how to design tariffs and quotas is the more fundamental one of what the U.S. expects to gain from them. In the past two decades Congress and Presidents raised barriers to apparel and textile

imports in response to pleas for help. Yet they have never declared a long-term strategy for this sector. Is there some way the U.S. can hold on to capital-intensive textile manufacturing, where it has a comparative advantage, and gradually let go of labor-intensive garment work? If the Chinese want to make shirts to trade for our computers and polyester yarn, should we trade?

Japan, the original object of U.S. textiles restrictions, used low-priced textiles as an industrial stepping-stone in the 1930s and 1950s, then consciously allowed these jobs to dwindle (see chart).



Producing apparel in mainland China

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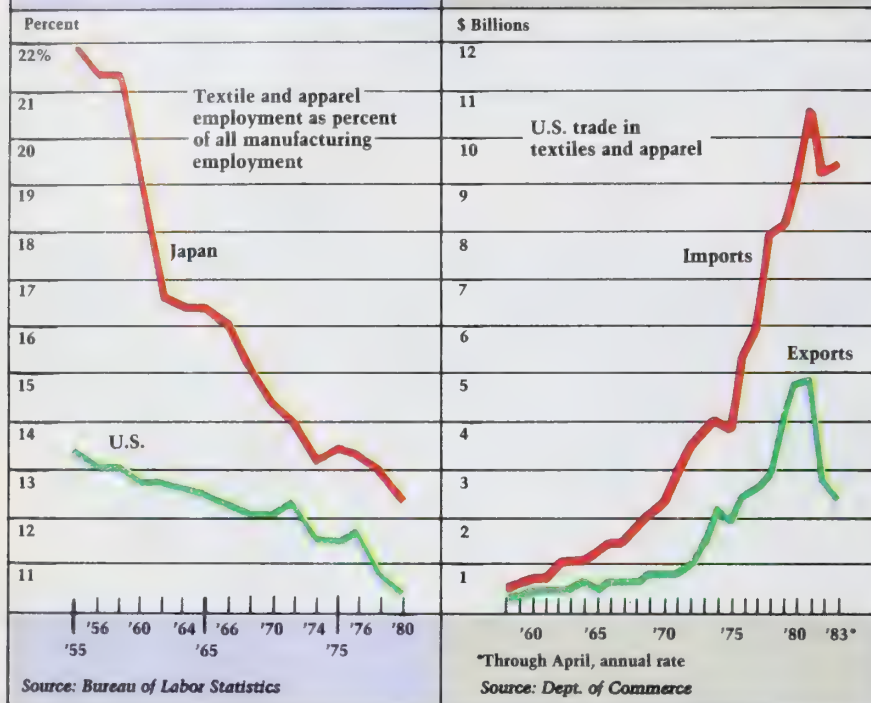
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The trouble with textiles

The economics of manufacturing favor the transfer of labor-intensive varieties, like much garment sewing, to poorer nations. The U.S. has resisted this shift. Japan, resigning itself to it, has encouraged its textile firms to set up plants in countries like Thailand and Malaysia and have them buy Japanese fabric or fiber.

Notwithstanding trade barriers that have increased steadily, apparel and textile imports have almost tripled in real terms over the past two decades. Imports are heaviest from Taiwan, Hong Kong, South Korea and mainland China. Exports are primarily in the more capital-intensive fabric and synthetic textiles.



Still, Japan, which hopes to keep higher-value-added jobs in expensive clothes, has encouraged its large textile firms to set up offshore plants in the Far East, has increased its presence in textile machinery—a skill-intensive industry in which the U.S. has lost its world leadership—and is putting \$60 million of government research money into apparel automation. "The Japanese have accepted the idea that they have to change the structure of their industry," says Robert Lipsey, an economist with the National Bureau of Economic Research. "They cannot stay in unskilled labor. That's something we have to accept also."

Those whose jobs are threatened don't buy this argument. "Apparel wages range from 10 cents an hour in Bangladesh to \$1.18 in Hong Kong," says Sol Chaikin, president of the International Ladies' Garment Workers' Union. "Their natural comparative advantage is poverty."

But economists who talk about the law of comparative advantage are careful to make the comparison, not

between different countries in one industry, but between different industries within one country. "The problem isn't the low wage in a foreign country. The problem is that some other industry in the economy here has become more productive," says Richard McKenzie, economist at Clemson University. Shirtmakers in Manhattan, then, are competing not with shirtmakers in Peking but with aircraft workers in East Hartford, Conn. Connecticut's workers are sewing shirts, too—by the roundabout method of machining titanium and trading a jet engine for shirts.

"Say our apparel workers are 50% more productive than apparel workers abroad, while the people who make jet engines are 100% more productive," says Niskanen. "We and the foreign workers are better off if we make the jet engines and they make the apparel." The U.S. aerospace industry—whose value-added per worker is three times that of the apparel industry—is counting on exports for all its growth over the next two decades. "If we get into an era of protec-

tionism, it will cost jobs in Connecticut," says Lawrence Clarkson, president of commercial sales at United Technology's Pratt & Whitney division in East Hartford.

What is good for East Hartford is bad for Manhattan, and it is no easy matter for Congress to mediate their interests. For one, it is wishful thinking to expect a laid-off garment worker to get a job making airplanes. Thanks to the recession and the strong dollar, thousands of aircraft assemblers are already out of work. The Institute for International Economics, a Washington, D.C.-based think tank, suggests that Congress could replace textile quotas with equivalent tariff surcharges. It could then use the \$2 billion a year in proceeds to retrain apparel workers. Since that tax revenue would be coming from the pockets of foreign exporters, not U.S. consumers, the idea sounds appealing. But would a government retraining program work? The last one, Trade Adjustment Assistance, was a failure.

There are other ways the U.S. could improve its strategic position. A National Academy of Engineering panel that reported this spring on the competitive status of the U.S. clothing industry has a recommendation: Follow Japan's lead in encouraging off-shore garment sewing. An existing tariff rule allows U.S. firms to make and cut fabric here, ship it abroad (typically to the Caribbean or Latin America) for assembly and pay duty only on the value of the foreign labor. The aim is to retain jobs in fiber and textile mills, where productivity gains have been large and the U.S. is still internationally competitive. But the program is sufficiently restrictive that it accounts for only 9% of apparel imports. Meanwhile, we let in millions of garments from South Korea, even though that country lets in only a tiny fraction of our fabric, yarn and fiber. Some American companies have on their own turned a competitive strength in fabrics to advantage, as did the sweat shirt makers of Martinsville, Va. (see story p. 110).

Perhaps legislators could best improve the competitive status of the U.S. by making up their minds. Says Jeffrey Arpan, a business professor at the University of South Carolina and a member of the National Academy panel: "The problem American firms have more than their foreign competitors is they're dealing with a big uncertainty. There isn't any comprehensive, clearly enunciated government policy for this industry. If they knew what it was, most of them could deal with it."—William Baldwin

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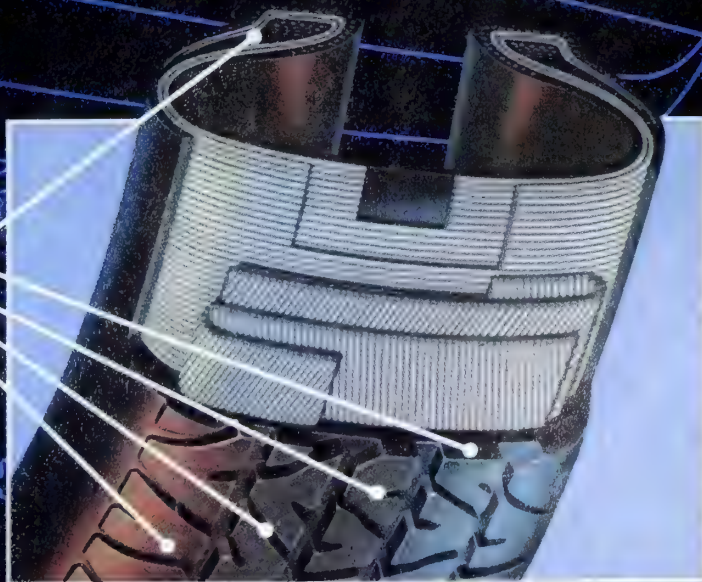
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Anyone betting on the industrial equipment industry these days has a long wait ahead of him, according to Cross & Trecker's Richard Lindgren.

False start



Chairman Richard T. Lindgren
Try him again next year.

By Geoffrey Smith

YOU WOULD THINK Dick Lindgren would feel entitled to count his chickens out in the suburban Detroit headquarters of \$380 million (sales) Cross & Trecker. There he is, at least barely in the black despite a sharp decline in machine tool sales, and Wall Street thinks enough of his future to bid up the price of his stock from 18 to over 27 so far this year. With durable goods orders up in four of the past five months and economic recovery in the wind, the market apparently likes what it sees and thinks it's a good time to buy into an industry profit leader like Cross & Trecker, which makes sophisticated computerized production systems for the aerospace, automotive and agricultural- and construction-equipment industries.

But Richard T. Lindgren, who sports a NO SURPRISES sign behind his desk, is not one to indulge in idle optimism. The recent strength in the stock price, he will grant, makes it much harder for a raider to lay hands on the pleasant \$100 million cash hoard he is sitting on. But as for the business basics, he advises, wait at least another year before you have a look at us. Don't jump the gun.

"Listen, I'm doing just great," he says sarcastically. "I've got our sales down in the first quarter—from \$103 million last year to just \$32 million this year. I got our operating earnings for the second quarter down from \$20 million last year to just \$250,000. And at the end of March we had \$65 million in backlog, as opposed to \$353 million at the end of 1981, just before I took over.

"We're not forecasting any significant improvement for 1984," he continues. "The percentage rate of capacity utilization in American industry has moved up from the low 60s into the low 70s, but that number has to move into the low 80s before people really start buying machine tools. A lot of people are asking, 'Might not what we're looking at here be like a false start? With these budget deficits, aren't we likely to see interest rates come up again?' There isn't anything like a real strong boom out there yet."

You have to understand, of course, that Dick Lindgren has a certain stake in being pessimistic. He came to Cross & Trecker back in late 1981, when the company was still riding high on the big automakers' downsizing spending spree—a spree that was about to come to a screeching halt. "This company was really headed for trouble," he says. "No one really real-

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ized the magnitude of the problem that lay ahead." No one, that is, except for Dick Lindgren, who, new though he was, unhesitatingly issued dire warnings.

The trouble was that top management had a little difficulty at first listening to a Cassandra, recruited by headhunters, who had never spent a day in the machine-tool business, even though he had spent 18 years in the automotive business, 3 years in Brazil selling for Ford Motor and another 6 years running construction equipment manufacturer Koehring, now part of Canada's AMCA.

But Lindgren had a fair understanding of what was really going on in customer industries of Cross & Trecker: "I said, 'Look, the bloom is off the rose in the oil patch.' And they said, 'No, we're quoting to our customers. They're buying, and everything is going fine.' I said, 'That isn't right. The pump-jack business is starting to hang up. The mud-pump business is going to hell.' I knew the construction machinery business was starting to fall off because that was another business we served at Koehring. In the meantime our backlogs were tumbling. So I told our people we would have to plan our 1983 business for half the sales volume we then had, and I told our board we would have to cut our labor force from 4,600 to around 3,000."

Such drastic cutbacks did not go down well with Cross & Trecker middle management, accustomed as they were to retoolings as regular as clockwork by Ford, GM and Chrysler. But Lindgren toughed it out. "In some cases we went through five iterations of a division plan before they were really ready to submit their 1983 plans," he recalls.

And he was right, as he is quick to tell you: "If you look at our competition—Cincinnati Milacron, the machine-tool part of Ex-Cell-O, Acme-Cleveland, Giddings & Lewis, which is also part of AMCA now—they've all been losing at a fairly significant rate because they didn't really anticipate the depth of the recession."

Lindgren does not foresee another extensive retooling by the auto industry in Cross & Trecker's future. "That's one of those things that happen once in a lifetime," he admits, "a very, very unusual event." What will replace it? "I think there's something going on now that's the equivalent of that or perhaps greater," he replies. "Almost anybody can get about a 50% reduction in labor cost by moving to the Sunbelt. Add to that a tremendous amount of competitive pressure, prin-

cipally from the Japanese, and everybody is going to start moving South. I mean, it's hard to pick up a Cleveland paper without reading about so-and-so closing a plant and moving it South. Now there aren't long lines of skilled machinists down there."

Enter Cross & Trecker computerized production systems that "design out" skilled labor as well as excess inventory. Lindgren is very strong on designing out inventory—a factor he regards as the pivotal advantage of Japanese manufacturers and an idea they stole from Henry Ford. "Thirty years ago, when I worked for Ford Motor in the Rouge," he says, "if we didn't get a shipment of sheet metal by noon, we didn't run in the afternoon because we never kept more than half a day's inventory of steel in the plant at any time. It's what the Japanese call *kan ban* or 'just in time' delivery of supplies. They don't have machinery that's any more advanced than ours. They're just more careful about inventory."

"In my last job I ran a company that made asphalt compactors—steamrollers. We had a very well-run company in Germany, and it turned its inventory 3 to 3½ times a year. The company we had in the U.S. wasn't nearly as well run, so we used to get a

2½ turn in our inventory. Stuff was piled up all over the shop. But we were also running a company in Japan, and there we were able to get an 8½ turn in our inventory. That was the difference."

Cross & Trecker computerized production systems aren't cheap. So Lindgren has his research people hard at work creating a whole new generation of machines instead of tinkering with the old ones—the oldest automobile marketing gimmick. And he's willing to do a little creative financing to get the ball rolling: "What we want to do is demonstrate to our customers that we can get significant reductions in labor cost for them with our computerized production systems, with significant improvements in lower inventory and improved product quality, and we're willing to put our money where our mouth is. We've put together a proposal for one of the big auto companies. We buy the land, build the factory and equip it. And all we ask from them is a commitment to buy a certain number of parts. Costs us probably \$15 million. We recover that over the life of the part, and then they own the plant."

As Lindgren says, try him next year. That's the kind of hard sell you don't do unless you have to. ■

Who says Britain's industry is obsolete? Meet Ferranti, which has set its electronic sights on the Pentagon.

Coals to Newcastle?

By Rosemary Brady

FERRANTI is an exceptionally energetic British high-technology company with \$595 million in sales for the year ended Mar. 31—40% from sales to Britain's Ministry of Defense. Now Ferranti is setting its electronic sights on the Pentagon. It isn't easy. Most defense establishments like to keep the contracts, the profits and jobs and the political influence

they represent, at home. But Ferranti is no novice. Over the last decade it has built a strong position, in some cases a worldwide lead, in technology for lasers, radar, inertial navigation aids and map and visual display units for ships, planes or tanks.

"We have all our arrows in the quiver to launch an attack, which we have a good chance of winning," says Derek Alun-Jones, Ferranti's managing director, using inappropriately

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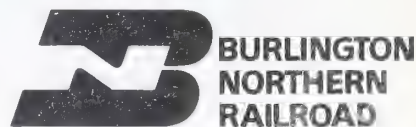
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Community finance What role for banks?

Revenues have not kept pace with the growing responsibilities of state and local governments. How can banks help public officials make the most effective use of their financial resources?

State and local governments face a serious budget squeeze. Local taxes in many areas are already burdensome, and borrowing remains costly. Though federal money has fewer strings attached, there is less of it: grants-in-aid were cut nearly \$5 billion from 1980 to 1982—more than 21% in inflation-adjusted dollars.

The result: despite tax hikes in more than half the states, real spending by state and local governments actually declined each of the last two years, for the first time since World War II.

It's become more critical than ever for state and local governments to use their revenues effectively. But public officials are traditionally more concerned with the audit and control side of financial management. Now they're drawing on the expertise of banks, which are reaching out to the public sector with the same financial skills they once reserved for corporations.

Stretching available resources

Despite cutbacks, substantial funds are still available to meet specific community goals, such as housing or industrial development. In addition to local tax revenues and municipal borrowing, the federal government continues to allocate more than \$80 billion a year to state and local governments. Banks can help communities design and administer programs to use all these funds effectively.

For instance, banks can help a public agency turn a grant program into a revolving loan fund that reuses money as it is repaid, which is far more efficient than a one-time giveaway. Working in



partnership with the community, a bank can conduct credit investigations, structure loans, gather applications, and set up an approval process—sparing local government the need to create additional bureaucracy.

Banks can also make public funds go farther by adding loan money of their own. In one western Pennsylvania community, local officials are working closely with banks to heighten the impact of their housing improvement program. Public funds are being used to reduce the interest on home improvement loans to substantially below the market rate. As a result, more money is available to revitalize neighborhoods, and millions of extra dollars are being injected into the local economy.

Cash management for governments

Cash management techniques can add supplementary income to many state and local treasuries. Many of these techniques are standard in private industry, but less commonly used in government—though such public agencies as lotteries or gaming authorities may handle millions of dollars every week.

To reduce float on their collections, for example, many corporations process payments through a "lock box"—a post office box used by their bank to collect and deposit checks. Public agencies can also use a lock box to speed up collection of tax receipts. Even in a small town, taxes can often be deposited in a municipal account faster through a lock box than if they are mailed to Town Hall.

Cash management programs can be tailored to the needs of any size government agency. A rural school district with multiple tax collectors can pool revenues and issue transfer instructions automatically. A liquor authority managing hundreds of state-owned stores can collect its receipts and deposit them on a daily basis. And a state government, with finances as complex as a Fortune 500 corporation, can use on-line reporting systems to monitor daily balances from hundreds of banks and compare them to specific targets.

Meeting the credit crunch

State and local governments are also finding it expensive to borrow money. But banks are using their expertise to help them develop affordable financing. In addition to their traditional role as underwriters and distributors of municipal bonds, banks are now actively counseling communities on how to structure, prepare, and place bond issues before they reach the market.

How a bond issue is structured and presented can significantly affect its marketability. The terms of amortization should closely match the cash flow of the municipality. Disclosure statements should convey the community's housing, income, employment, and tax characteristics in the most favorable light. By developing pertinent informa-

tion and presenting it forthrightly, municipalities can end up paying less for what they borrow.

Banks now often coordinate the complex, tedious process of organizing a bond issue: gathering information for financial statements, preparing legal documents, holding investor information meetings, securing a rating, and conditioning the market-place. After the issue is sold, banks are using their investment expertise to help communities invest the proceeds.

Local governments benefit from all these methods for enhancing credit, improving cash management, and creating more effective programs. Banks benefit, too, by finding new clients and new uses for their skills. But government money is public money, so it's the public that ultimately benefits from these new methods of making every dollar count.

At Mellon we've helped many communities meet the challenge of today's difficult financial climate. For example, our Community Development Division works with public agencies to create effective funding programs. We're a leader in developing cash management programs for the public sector, and we advise state and local governments on a broad range of financing options. It's one more way in which Mellon helps define what banking means today.



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anachronistic military terminology.

But a lot of people think he will hit his target. Ferranti shares, first listed on the London Stock Exchange in 1978, today are riding high at 25 times earnings. Back in 1975 the British government came up with \$35 million to rescue Ferranti, which was founded in 1882, from bankruptcy. Then still family run, the company had stumbled on its passion for innovation.

Alun-Jones, 50, was recruited from Burmah Oil Trading Ltd. in 1975 to put all that technology on a more businesslike basis. That he has done. From 1976 on, Ferranti's sales rose 25% to 30% yearly. Pretax profits jumped from \$7 million in 1976 to \$50 million in fiscal 1983, for a return on equity of 28%. In 1978 Ferranti paid back the government's loan, and in 1981 the government sold its 50% equity kicker to institutional investors. Now, says Alun-Jones, the company's borrowings are practically nil, and cash flow is strong.

So, now comes the assault on the U.S. military market. "One of the few ways to get into the U.S. market is to have something that's not available from anyone else," Alun-Jones says. "COMED is one case where we did." COMED is the \$100,000 combined map and electronic display unit that will face pilots at the controls of the new McDonnell Douglas F-18. Essentially, COMED is a screen that displays a moving map linked to the aircraft's flight path and, at the same time, gives separate information about enemy forces, the required route, targets and danger areas. Ferranti designed a similar device for the joint Anglo-German-Italian Tornado fighter aircraft in the mid-1970s. It was the hottest display unit around when McDonnell Douglas started looking for F-18 parts, the British say. But \$100,000 systems for nearly 1,400 Navy planes would mean a \$140 million contract, not an easy catch for a foreigner.

"We decided it would be extremely difficult, even though we were in a strong technical position, to do the deal as a total foreign buy. So we went into an arrangement with Bendix. They do some of the work in the U.S., and that limits the exports from the U.K. It's a more bearable arrangement [for the U.S.]," he says.

Ferranti gets 35% of the financial benefits of the contract, and Bendix gets Ferranti's technology—not an especially good deal for Ferranti but the price it must pay to get the U.S. business at all. In 1982 Ferranti's U.S. sales, commercial and military, were less than \$30 million. Last fiscal year



Ferranti Managing Director Derek Alun-Jones

"We have all our arrows in the quiver to launch an attack."

they were up 38%, to \$38 million, and Alun-Jones wants to maintain that growth rate, regardless.

The most promising defense venture appears to be Electro-optics Inc., a tiny, less-than-a-year-old subsidiary in Huntington, Calif. Alun-Jones, who calls the U.S. weak in laser technology, is waiting to hear whether Electro-optics will succeed in any of its 15 bids for laser contracts, ranging from \$5 million to \$85 million. Ferranti's star, combat-tested laser product is the Laser Ranger and Target Marker, which, attached to Royal Air Force Harriers, last year successfully guided British bombs to Argentine targets in the Falkland Islands war. There's also a lightweight Target Marker that fits snugly into a soldier's pack and is used to direct bombing.

Ferranti also paid a low-risk \$4 million last year for Venus Scientific Inc. of Long Island, manufacturer of high-voltage power supplies for the U.S. military avionics market, and is looking for more acquisitions or joint ven-

tures. "Our strategy recognizes there are various stages in the U.S. defense business," says Alun-Jones. "It is comparatively easy to supply components and to be in subassembly."

There also is the civilian market. In Britain—and in the U.S. through Interdesign Inc. of California—Ferranti manufactures an unusual microchip developed from old Bell Labs technology. This "uncommitted logic array" chip resembles other semiconductors until the final production stage, when it may easily be adapted to different applications. Its revenues are benefiting handsomely from the boom in personal computers. The Sinclair personal computer and Britain's popular Acorn brand use Ferranti chips.

Alun-Jones believes his Ferranti has the electronic knowhow and the competitive price to prove that high technology isn't the private preserve of Silicon Valley and Japan. You might say that Ferranti is to British industry what the Falkland Islands were to British pride. ■

Message from the U.S. Ambassador to the Republic of the Philippines

Michael H. Armacost

U.S.-Philippine Economic Relations

The text for the special Philippines advertising section was prepared by Adrian E. Cristobal. Mr. Cristobal, an author and journalist, is an expert on economic, cultural and political issues in the Philippines.

Economic relations between the United States and the Philippines are in good shape, reflecting many years of cooperation for mutual benefit. Over the past decade the Philippines has opted for a healthy diversification of economic partnerships, particularly with its East Asian neighbors and the European Community. Nonetheless, the United States, with nearly \$1.5 billion in investment, remains the largest single foreign investor, supplying over 20% of Philippine imports and purchasing over 20% of Philippine exports. Bilateral trade in 1982 totaled \$3.3 billion, with \$1.7 billion in U.S. exports. Direct U.S. assistance to the Philippines amounted to about \$100 million in 1982, and U.S. commercial banks now hold one-third of the total Philippine fixed-term external debt of \$17 billion.

The key policymakers of the Philippines are committed to a development strategy that encourages foreign investment and relies on the private sector. President Ferdinand E. Marcos recently reaffirmed that foreign investors need not fear expropriation, barriers to the repatriation of profits, or constant changes in the rules. He also stated that there will be a sustained commitment to make Philippine industry more competitive through the reduction of tariffs. There have been changes, too, in investment incentives, to promote export-oriented, labor-intensive and high-technology industries, maximizing local commodities.

These recent revisions are intended



Michael H. Armacost
U.S. Ambassador to the Republic of the
Philippines.

to complement a variety of factors that make investment in the Philippines attractive:

- Abundant natural and human resources.
- High levels of management and entrepreneurial skills.
- A highly literate, English-speaking and competitively priced labor force.
- One of the most dynamic and fastest-growing locations in the world.

U.S. electronics firms have found these inducements particularly advantageous. Many major American producers of electronic components have established manufacturing facilities in the Philippines in the past few years.

Admittedly, the current Philippine outlook is colored by the effects of a prolonged global economic recession. In addition, serious problems in the domestic financial market placed strong pressure on banking liquidity and the availability of credit.

But the Philippine government moved rapidly to impose a strict austerity program and is seeking new ways

to encourage equity investment and promote exports to improve its external balance. Its program has earned the backing of the International Monetary Fund, which has committed over \$500 million in support in 1983. It also has the support of the World Bank and other aid donors, who pledged \$1.2 billion to Philippine development for 1983. Also, the Philippines has just borrowed \$300 million from private banks in a placement that was oversubscribed.

In recent years the Philippines has achieved striking success in energy development. It has reduced dependence on oil imports from 94% of primary energy consumption in 1973 to 68% in 1982. Plans call for reducing this figure to 39% by 1986. The recent drop in oil prices may save as much as \$300 million in the foreign exchange cost of petroleum imports in 1983. This should further help to cut the rate of inflation, which is already below 10%.

We believe the Philippines is pursuing sound economic and development policies. It will be in an excellent position to take advantage of world economic recovery, particularly if it maintains budget control, keeping domestic credit available to private borrowers.

Happily, bilateral economic relations are now on a firm footing. But whatever we may do through the traditional means of bilateral diplomacy to sustain and improve the relationship, given the interdependence of the two economies, Philippine economic recovery requires a resumption of healthy, noninflationary growth in the United States. This, along with continued effective resistance to pressures to restrict access to U.S. markets, is the greatest contribution the United States can make to that recovery. There are encouraging signs that success is not far off.

The Philippines

A Renewed Friendship

President Ronald Reagan
with President Marcos and
Madame Imelda R. Marcos
on the White House lawn.



On September 14, 1982, Philippine President Ferdinand E. Marcos began a sixteen-day visit to the United States. It was, in his words, "the longest journey I have undertaken in all the years of my presidency."

The crisis decade of 1972 to 1982 had brought Philippine-American relations to a low ebb. Philippine leadership, in the face of what it believed to be U.S. government hostility, had increased the breadth and intensity of Philippine relations with the Third World and socialist countries.

President Marcos' visit took place in the aftermath of that turbulent decade, during which American policy had appeared erratic and its commitments to its allies uncertain. The visit was therefore especially important to the continued survival and enhancement of Philippine-American friendship.

In his welcome address to President Marcos, President Reagan took note of Philippine achievements and aspirations, and referred to that country as "a respected voice for reason and moderation in international forums" and "a recognized force for peace and security in Southeast Asia. The United States," he said, "deeply values its close friendship and alliance with the Philippines."

President Marcos, in his response, stated the Philippines' commitment to democratic ideals that are "our legacy from the United States of America." He recalled to his American audience that the Philippines "has been molded along the principles of American democracy" and "lost a million of our people fighting for [those ideals] in the last war."

Philippine-American relations are anchored in defense and security. The two governments affirmed the importance of their security alliance to the maintenance of peace and security in the Pacific.

President Marcos' journey provided the occasion for an understanding between the Philippines and the United States on several issues:

- Renewal of respective commitments under the Philippine-U.S. mutual defense treaty.

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- Regular consultations between the two governments at the ministerial level beginning in February 1983.
- Scheduling a five-year review in April 1983 of the military bases agreement, to ensure that the agreement's provi-

sions continue to meet the needs and interests of both countries.

The Economic Relationship

The cordial spirit that attended discussions of Philippine-U.S. political

relations also characterized the broad and detailed discussion of economic relations.

President Marcos found that the Reagan administration desired to adjust policies and programs to achieve global economic recovery. Several of the economic agreements that were a hallmark of the visit were initiated by President Marcos' American hosts. The accords covered many areas:

- An exchange of instruments of ratification for a bilateral tax treaty.
- A civil aviation agreement.
- An agreement designed to encourage reciprocal tourism.
- An agreement involving cooperative programs for agricultural development and for scientific and technological exchange.
- An agreement with the Export-Import Bank of the United States, subject to congressional guarantees of \$204.5 million for the Philippines' Bataan nuclear plant.
- An agreement to explore new cooperative measures to reduce, through advanced meteorological technologies, loss of life and property due to typhoons.
- A provision for a joint economic commission.
- Organization by the U.S. government of an investment mission of American businessmen to the Philippines and ASEAN countries in 1983.

The Philippine leaders felt that the success of their negotiations with American officials was reflected not only in the specific agreements signed, but also in the earnest desire demonstrated by both governments to work and consult in harmony on the principal problems of the global economy today.

In his parting words to the visitors from the Philippines President Reagan pledged, "We will all do more in the years to come, and our continuing commitment to one another... will be solid now and for the future."

Philippine Economic Prospects

An important result of the state visit is that Philippine officials were able to gain a view of the problems and prospects of their nation in the context of

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Deputy Minister

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the international community.

It is still uncertain whether an economic turnaround will indeed take place or the climate of depression will continue. But Philippine officials are encouraged: If their country's economy has shown resilience in the face of dire circumstances, and if the upturn does occur, then the Philippines will be in an excellent position to ride the tide of economic recovery and growth.

Although Philippine commodity exports declined by 27% over a period of just one year, nontraditional exports compensated for the decrease by an increase of 17%. Today manufactured exports account for more than half of total Philippine exports.

The Philippines has followed a conservative debt management policy, maintaining its debt at 20% of the previous year's receipts. Its debt service ratio now stands at 19.2%.

The Philippines' management of its debt burden of \$12 billion appears creditable, especially when compared to that of other countries with debt burdens of over \$50 billion and debt service ratios running as high as 50%.

Having anticipated the challenge of the continuing energy crisis, the Philippines has made plans to develop alternative sources of energy. While the Philippines formerly imported 95% of its energy, it currently imports less than 70%, and the outlook for accelerated improvement in this area is excellent.

The Philippines is now self-sufficient in food. And in the industrial sector, the Philippines is engaged in a major modernization process, of which tariff reform has been a major instrument.

In the course of President Marcos' visit, many American businessmen expressed confidence in the long-term prospects of the Philippines and are prepared to back up that confidence with investments.

As President Marcos has repeatedly stressed, countries throughout the world increasingly find themselves in a situation of interdependence. For developing nations, this translates into an imperative to create political and economic mechanisms that enable them to stand on an equal footing with the other countries of the world.



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Beyond the pages gritty with numbers, corporate financial reports give you a little bit of help—if you know where to find it.

Light in dark corners

By Christopher Power

THE TEXT IN corporate annual reports used to be little more than a redundant summary of the figures. "Stuff like, 'advertising expenditures were up because we spent more,'" explains one CPA.

Over the last several years, largely unnoticed by investors, all that has changed. With a little prodding from the Securities & Exchange Commission, the section labeled "Management Discussion and Analysis," which typically follows the chairman's letter, has improved dramatically. "As a reader of an annual report today, the MD&A is the first thing I'd look at," says Lee Spencer, director of the SEC's Division of Corporation Finance, which deals with disclosure matters.

This change was a long time coming. In the 1960s both financial information users and the SEC were convinced that the bare figures of the income statement were the most important part of an annual report. But then, in the 1970s, the folks at the SEC made a startling discovery. Although earnings are important, if a company doesn't have any liquidity there are bound to be serious problems. You can feed investors with earnings, but you have to pay the bills with real money.

But how to let users of financial reports know how liquid a company is? This information can't be easily reduced to a single figure, like earnings per share. So, in September 1980, the SEC required companies to present more detailed discussion of liquidity, capital resources and operations. Since this analysis must ap-

pear in the MD&A, the move helped turn the section into a treasure trove of useful data.

Unfortunately, no annual report comes with a map for getting through the MD&A. There is lots of complex numerical information packed into a few pages, and it takes some experience to appreciate it. Here's how to find a few useful nuggets:

1) Sales breakdowns. Naturally, the income statement will show you if



revenues are going up, but in the MD&A you can learn if that change is caused by rising prices or an increase in the number of units sold. The distinction is important.

2) Extraordinary items that contributed to earnings. Windfalls like tax credits and sales of property by firms that don't make that their business should be described in detail.

3) A breakdown of working capital. Remember when W.T. Grant filed for Chapter 11 back in 1975? Its working capital figures looked just fine—despite an unmentioned but consider-

able absence of cash. The MD&A should now show you how working capital is allocated among cash, receivables and inventory, and how long it takes to convert current assets into cash. Those are all crucial factors in evaluating the strength of a company's real cash flow.

4) Significant financial ratios. "What you want to be looking for are the more difficult ratios, the ones that are not easily extracted from the financials," says Roger Cason, national director of accounting and auditing practices with accounting firm Main Hurdman. For example, cash to expenses, cash to total liabilities, inventory as a percentage of working capital. Cason thinks that if a company doesn't disclose any of these and just provides the ever popular current ratio (current assets to current liabilities), you are being shortchanged.

5) Projections. The SEC has been encouraging companies to use the MD&A to present some "forward-looking information" of future operations; it even provides a safe harbor clause to protect a company just in case some projection should not come true. Items to keep an eye out for: upcoming union negotiations, new environmental negotiations, major capital expenditures and their possible impact on debt, and possible plant closings.

6) Broader problems. Investors should find out if there are any industry-wide issues that could possibly affect their company. For example, an electronics firm might have some commentary about foreign competition or an oil company about the recent slump in oil prices.

One final caution: Read the MD&A with an appreciation for what is not mentioned, too. Despite close SEC scrutiny of this portion of annual reports, corporations haven't suddenly become blabbermouths, eager to bare every secret. "Suppose you were looking at a publicly held thrift a year ago," says Cason, "and there was no talk of the impact of interest rates. You'd know you weren't getting the whole story."

The simple truth is that no company is going to do your work for you. As much as managements are constrained by the SEC to tell you the truth, everyone sees the truth in a different way. And corporate accountants are paid to be optimistic. So when you peruse the MD&A, wear your best glasses—and make sure they're not rose-colored. ■

Here's a device that could save your company lots of taxes, if you are willing to risk bearing from shareholders and the IRS.

The 6.9% solution

By Anne Bagamery

JUST A FEW YEARS ago only the sharpest companies were managing their cash efficiently. But not today. No treasurer worth his salt will let funds sit idle now. Every cent goes into money market funds or other short-term investments. Next on the agenda is figuring out how to avoid paying taxes on this interest income. There is a way. It's more than a little risky, and it may unnerve some boards of directors, as well as the Internal Revenue Service.

But it does work.

Here's how: First, you need to find two adjustable-rate preferred stocks paying dividends on the same date. That's relatively easy, since about 50 adjustable-rate preferreds trade actively. Then you buy a set amount of one issue and sell short the same amount of another, at least 16 days before both stocks pay dividends. This allows you to collect the dividends when they are declared. After the payouts the price of both preferreds will generally decline by the amount of the dividend, so you wind up with a short-term gain in the stock you shorted and an equivalent short-term loss in the one you bought. These short-term gains and losses offset each other.

Why go to all the trouble? Well, remember, you are still left with the dividend, and dividends earned by corporations are taxed at a mere 6.9%. That's the secret of this system. It uses a classic tax-avoidance strategy and shifts income from a high-tax category to a lower one. If your company had simply invested its surplus cash in money market funds, the re-

turn might have been more certain, but this income would be taxable at the regular corporate rate—as much as 46%.

Despite the apparent benefits of this gambit, chief financial officers aren't exactly lining up to buy adjustable-rate preferreds. Unfortunately, there are some risks. For one thing, the dividends paid by these instruments vary with interest rates. If rates move sharply during the 16-day holding period, the gain/loss balance gets thrown out of whack. Also, since adjustable-rate preferreds are thinly traded, they are more subject to market fluctuations from large-block trades. A company could end up with more taxable gain than it wants or



less than it needs.

Brokers who are promoting these deals, like Oppenheimer & Co., are quick to tell you not to worry. Any imbalances, they claim, will even out over time for steady traders. And it is statistically possible for an aggressive corporate-tax minimizer to take as many as 22 preferred stock positions in one year. What the brokers don't say quite so quickly, of course, is that the more trades a company does, the greater the brokers' commissions—which, even at one-eighth of a percent on big orders, add up fast.

There's another problem, too. To use preferred stock dividends efficiently as a means of reducing taxes, a corporation must have lots of idle cash—and that isn't necessarily good. "If I saw a manufacturing company doing this sort of thing," says Mario Borini, a partner with Seidman & Seidman, "I'd begin to question the vitality and viability of management. Isn't there some better use for their money?"

That's one reason the preferred stock ploy is popular mostly with small, privately held companies. Often, too, they are in businesses that generate large amounts of cash. But some public companies have taken the plunge. Consider Plenum Publishing, an over-the-counter company that has around \$10 million a year in magazine subscription float to play with. "I'm always looking to maximize dividend return to maximize after-tax income," says Chairman Martin Tash, a CPA who has been successfully playing straight and convertible preferreds—a somewhat lower risk strategy—for ten years.

What do shareholders and the board say? "I make no secret of what I'm doing," says Tash. "It's right there in the 10K under 'Investment Gains and Losses.'"

The same risks that scare boards of directors and delight brokers have thus far kept the IRS away: Generally the feds have been reluctant to go after dividend tax shelters as long as there's no guarantee that a company will reduce taxes without maximizing income. But in late June the Treasury Department asked Congress to look into certain tax-shelter "abuses," including the short sale of stock before dividend date.

Will anything come of this? No one knows. But it wouldn't be the first time the feds have tried to close a loophole that lots of taxpayers didn't even know was open. ■



Brad Holland

Decision without appeal.

In the question of one's right to die, TIME explores new arguments in the ancient contest between what is right, and what is legal.

First there was morality, then there was law. And ever since the distinction was made, arguments have raged about what law is, what morality is, and what they have to do with each other.

Some say a distinction between them is essential; others, that such a distinction is not possible. But some moral values may be too fine to be enforced by what has been called the rough engine of the law.

In the Law section of a recent issue, TIME Magazine explored an area where that possibility is real

and poignant: the question of the legal boundaries of life, of one's right to cross them, and another's right to prevent it. If it is the business of law to mediate between rights and responsibilities, what does it do in a situation where, often, a legal and a moral good conflict?

TIME has always had a section devoted to law, and with good cause. If law sometimes seems to be a mass of tedious equivocation, it is well to be reminded of its larger purpose.

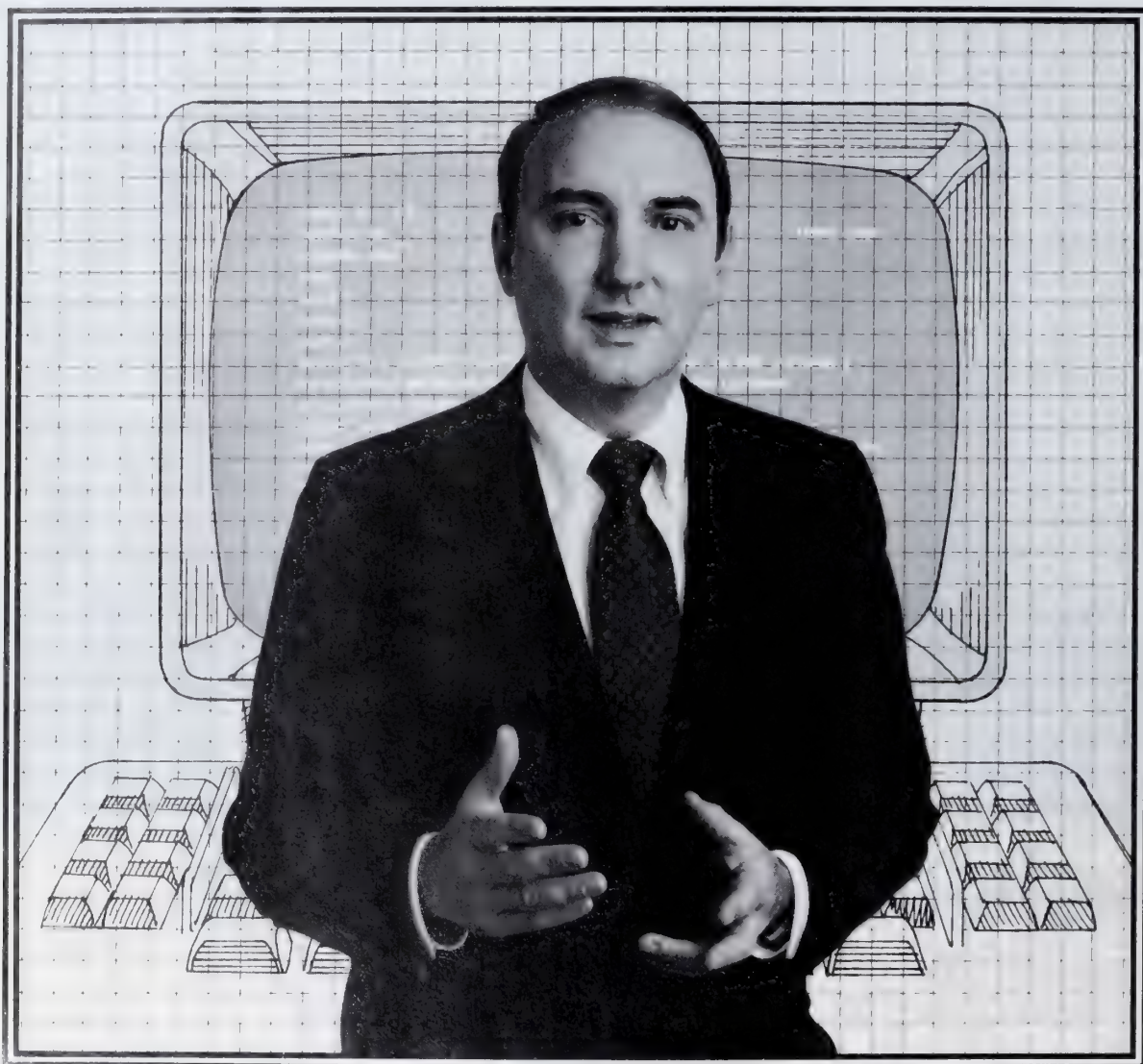
Law is more rational than war, more practical than the arts, more

idealistic than politics or economy. To study its decisions is to gain an extraordinary insight into what society really considers good and evil. Thus it is essential to TIME's weekly effort to communicate understanding about the world we inhabit. Another reason that TIME is read each week by nearly 30 million men and women around the world.



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United Telecom 

A clear, distinctive voice in the Information Age.

Everyone in the television industry claims to want high-definition TV. So why will it take so long to make its appearance?

Pictures at an exhibition

By Stephen Kindel

IN MONTREUX, Switzerland, you can hear excellent jazz in the summertime and get a good ice cream sundae—*ohne oder mit Schlag*—at any time of the day or night. You can sometimes also get a good peek at the future. Montreux is the home, every other year, of the International Television Symposium. For more than 25 years it has been the place to show off the latest in TV technology.

This year's hot ticket: a demonstration of the Japan Broadcasting Corp.'s

(NHK) high-definition television system, known to initiates as HDTV. The demonstration, put on by the Swiss hosts of the exhibition, with the cooperation and assistance of six European broadcasters, was both a technical and an artistic tour de force. Programming varied from Dizzy Gillespie at the Montreux Jazz Festival to a Russian offering of *Sleeping Beauty* by the Kirov Ballet. But it was the spectacular look and sound of HDTV that brought on the applause: wide-screen, movie-theater-like pictures, rich, vibrant color and high-fidelity

Technology

Edited by Stephen Kindel

stereo sound of brilliant clarity.

How does HDTV accomplish this? Consider your current television: It provides 525 scanning lines, refreshed 30 times a second. When television first came in, back in the late 1940s, screen sizes were under 16 inches, so 525 lines provided adequate resolution. But modern screens average 21 inches, and many home sets are 23 inches or more. The result is that you can often see not only the lines the TV's electron gun makes as it passes along the screen but also the pattern of colored dots on which the electron gun paints its picture. Explains Joseph A. Flaherty, vice president for engineering and development at CBS, who is in charge of spearheading the HDTV drive for the American broadcaster: "Inside every color set there is really a black-and-white set. To the viewer the color appears to be painted over black-and-white images, which are really relative differences in brightness. When the screen is small, you don't notice that the electron gun sometimes paints slightly outside the lines. But as the screen gets bigger,

A picture worth thousands of words

The proof of high-definition television's superiority is in the picture. The image on the left is photographed from a Sony version of NHK's 1,125 proposed HDTV

standard, while that on the right is a conventional 525-line TV picture. HDTV is clearer and sharper, and its colors are more natural.



Technology

you notice this much more quickly, and the eye rejects the image as wrong." European sets provide more scanning lines—625—but that is still insufficient.

High-definition television corrects this problem by providing more than twice as many lines as the U.S. standard—1,125 in the NHK system demonstrated at Montreux. HDTV also uses a 25% wider screen, to overcome another problem: the fact that the eye sees more in the horizontal plane than in the vertical. By widening the screen, the eye "reads" the image better. That combination of more scanning lines and a wider screen provides enough additional picture information to approach the image clarity of 35mm film.

But there's more. In order to get so much additional resolution, wider

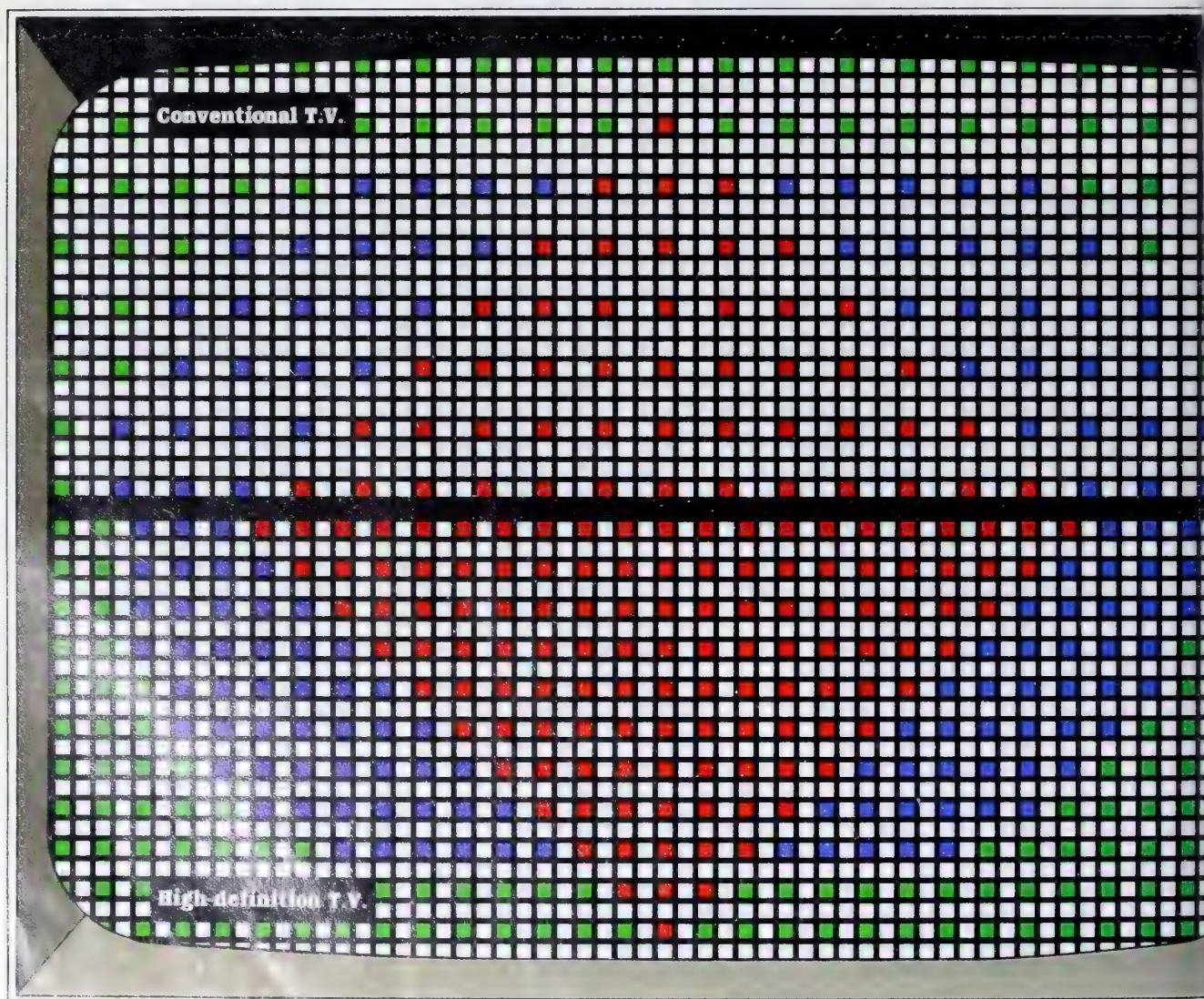
transmission channels are required than for a conventional TV image. So, when engineers began working on HDTV, they decided that if extra bandwidth was needed anyway, why not add more besides and solve two other major television problems, poor color quality and poor sound? With a slight increase in the transmission channel, HDTV is able to add multi-channel stereophonic sound and much sharper color.

So far, just about everyone in the business wants HDTV—broadcasters, cable operators, manufacturers. But of these major players, over-the-air broadcasters are in a seemingly vulnerable position. Why? Because all that extra bandwidth can't be handled by a regular television receiver, and there is no easy way known to make conventional TVs and HDTVs compatible. So broadcasters aren't sure they want to spend huge sums installing high-definition camera and broadcast equipment until new television sets are available.

That question is complicated by an-

other—what the industry calls "the Japanese question." At the Montreux conference, several manufacturers among them Philips of the Netherlands, RCA and more than one European broadcast authority, claimed that NHK was trying to steamroll the world into a de facto standard, thereby foreclosing the possibility that European and U.S. electronics manufacturers, whose television operations are badly lagging, might make money on the lucrative licensing end of their own R&D. Says Kerns Powers of RCA Research Laboratories, "Everyone is talking about 1,125 lines as if it were a foregone conclusion. We want more time to find out what the optimal system is."

Both CBS and NHK insist that the 1,125-line standard is only experimental and they might even change it. Whether or not they do, CBS' Flaherty says, there is a consensus developing for some uniform worldwide standard at the production level. Since the NHK standard is what's available, it will likely be adopted un-

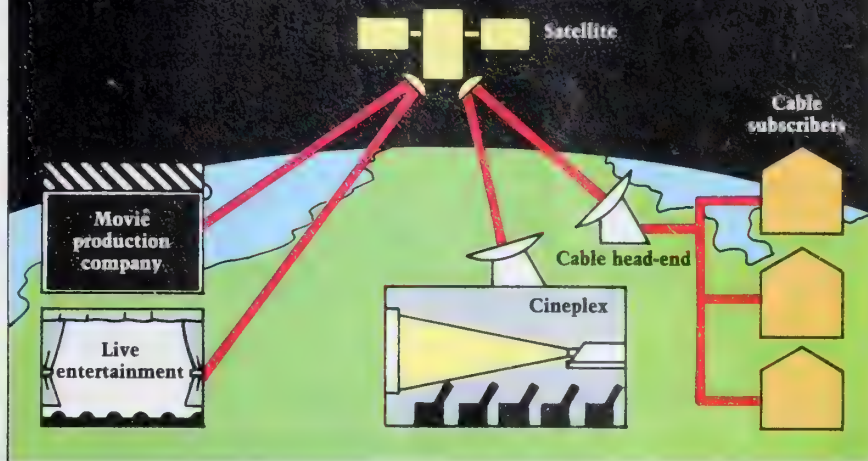


less some serious technical opposition emerges soon. And once a standard is adopted by television producers, the broadcasters would probably follow along.

Once a standard is adopted, cable television operators could steal a march on broadcasters. "HDTV is almost ideally suited for the cable industry," says William J. Bresnan, chairman of Group W Cable. "Most cable operators already receive their programming via satellite, so there are only a few, manageable head-end costs. And with so many channels available on cable, it is not difficult to merge two or three channels on larger systems to get the necessary bandwidth." With over 30 million homes already wired for cable and an expected 60 million by 1990, Bresnan speculates that there would be a ready market for cable-company-installed receivers as well. Says he: "In the beginning the high cost of an HDTV receiver—around \$2,000—will be the major barrier of entry for the market. But there's nothing to stop the cable

The missing media

HDTV will first lower production costs. Then, profits will likely go to large cable TV system operators, or emerging cineplexes—direct-to-theater satellite broadcasts. Potentially left out in the cold: over-the-air broadcasters and direct-to-home satellite systems.



companies from supplying the set as well as the set-top converter at some reasonable rental cost that makes it far more attractive for people to abandon broadcast than stay with inferior picture quality on their regular sets."

But even the cable operators might be beaten to the punch. Flaherty explains: "People want to see the biggest picture they can. That's why wide-screen movies took over from the kind of square screen that existed before World War II, and that's why projection television is doing better and better, despite its current technical limitations." In fact, both Sony and Panasonic demonstrated high-definition projection television systems at the Montreux conference, and both companies could probably sell their equipment within a year if demand emerged. Projection HDTV using taped or closed-circuit programming could make possible an entirely new entertainment form—a hybrid of movie theaters and TV that already has a name: cineplex.

Engineers at Bell-Northern Research, the R&D arm of Bell Canada, have been working on a cineplex system they think could go into operation as early as this year. A typical installation would consist of four or five minitheaters like the movie theaters that have proliferated in the U.S. in recent years. One or two of the theaters would show first-run movies; one, remotely transmitted cultural events such as symphony concerts; and one or two, rock music, or perhaps a comedian or singer. That's the kind of entertainment in which cable programmers already excel, and it creates a whole new set of problems—

and opportunities—for the major entertainment packagers.

Ultimately, of course, the biggest stumbling blocks are economic, not technical. Despite all the forecasts of a rosy future for all the new electronic entertainment and information media, there is a significant cost barrier to be overcome.

According to a report done for CBS by Kalba Bowen Associates, Inc., a Cambridge, Mass. market research firm, average household expenditures on entertainment and information have remained at a fixed 3% to 4% of income for over 40 years. While personal spending is expected to double by 1990, the total dollar value of all entertainment services—cable TV, direct broadcast, HDTV, computer information utilities—is projected to triple, or nearly so. Since that projection is not likely ever to be realized, one or more of the future's media will fail to attract an audience. Ah, brave new world.

They also serve

WHEN AN EXTORTIONIST a year and a half ago threatened to bomb the operations center of BancOhio, Ohio's second-largest bank, not the least of the bank's concerns was that the data processing center would be blown sky-high. No bomb ever went off. But if it had, the bank would have suffered a catastrophe. "If the data center had been down just three days," says Peter Rosenow, senior vice president of information systems, "and we had not reopened within five business days, we would have gone bust. Bankrupt."

Filling in the dots

The color picture you see on your TV screen is not a seamless image. Rather, it is a complex series of lines and dots that, when viewed from a proper distance, appears as a picture. When TV sets were first made, the number of scanning lines was fixed at 525 (top), which was more than adequate for the small size of screens then in use. But as screen sizes have widened, the spaces between the red, green and blue phosphor dots that make up the image have become more noticeable. High-definition television (bottom) corrects this problem not only by increasing the number of scanning lines to over 1,000 but also by changing the ratio of colored phosphor dots to surrounding white space. The result is an image with more picture elements—up to five times as many in NHK's 1,125-line system as in a conventional 525-line picture.

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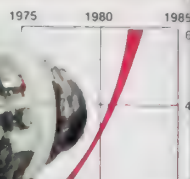
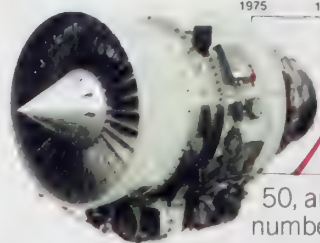
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Technology

That's the dark side of the computer age. Modern banking depends on the computer to such an extent that, if disaster strikes, it would be impossible to marshal enough clerks with adding machines to keep the operation from collapsing under millions of unprocessed transactions. Banc-Ohio, for example, has 800 computerized transaction terminals statewide, and its central computer processes 1.1 million checks per day.

Banking is not the only industry virtually run day by day by computers. Public utilities not only bill by computer but also use them to manage the flow of electricity through their power grids. Distribution companies would have endless backlogs without data processing. Increasingly, manufacturers depend on computers to control inventories and run assembly lines. Airlines use them to run worldwide reservation systems.

But nobody uses computers more than governments. And that, says computer-crime expert Donn Parker of SRI International in Menlo Park,

These businesses, of course, store important data in a duplicate memory system in case the main computer goes down. But it is the processing required to bring a real-time system up again after a catastrophe that presents the critical problem. The computer is the new "key man." And when the key man is disabled, a business can fail.

But one man's potential disaster is someone else's opportunity. Take Comdisco Disaster Services, Inc., a subsidiary of Chicago-based Comdisco. It has become the largest "computer recovery" firm in the nation, with 260 clients. Comdisco Disaster provides emergency facilities on its own computers, telecommunications linkups and, if requested, trained computer operators and software technicians. Within hours after disaster strikes, a company can move its duplicate data tapes and personnel into the building and be up and running. In addition to a center in Chicago, Comdisco has one each in California, Texas and New Jersey and has one under construction in Colorado and one north of New York City.

By necessity, these emergency data centers—called "hot sites" in the industry—sit idle day after day. They can't be used for time-sharing or other

room with several feet of water. The company moved to Comdisco's computers, where it operated for the next six weeks.

Other computer recovery companies include Sungard, a subsidiary of S.I.S. Corp. of Radnor, Penna., and Corporate Contingency Services owned by Blue Cross/Blue Shield. Corporate Contingency's site, in New Hudson, Mich., is over 170,000 square feet, the biggest hot site in the country. The huge building stands idle—except for occasional minor work for parent Blue Cross/Blue Shield—waiting for a corporate doomsday.

Not surprisingly, the premium for this form of insurance comes high: from \$2,500 to \$7,000 per month to insure that idle capacity will be there if needed, and, if it ever is, as much as \$10,000 up front, plus \$3,000 to \$4,000 per day.

Because of such fees, some larger companies have set up their own hot sites. General Electric has over 150 separate businesses that all depend on computers to a degree that Doug Walker, an information security and control consultant at GE, calls "just overwhelming." So after pricing out side services, GE decided it would be cheaper to set up its own recovery service, even at a cost that would probably run about 1% of GE's multi-million-dollar computer operations budget. If that seems like a hefty sum, it might not be too much, perhaps, to keep those who live by the computer from dying by it.—Jon Schriber



Corporate Contingency Services' New Hudson, Mich. hot site
Those who live by the computer. . .

Calif., makes governments particularly vulnerable. According to Parker, there have been 30 terrorist attacks on computer centers in Europe since 1978, including the Red Brigades' famous detonation of the Italian Motor Vehicle ministry's records. For two years no one in the ministry knew for certain who had a driver's license or owned a car.

outside services but must be held in readiness in case a client needs them. In fact, Comdisco Disaster President Ray Hipp believes his is the only computer recovery company whose services have been used. That happened in January 1982, when a water main broke only one floor above the data center of a Chicago-based real estate financial institution, flooding the

No designer genes

With investors frothing at the mouth over any new issue with a high-technology cachet—even better if it's in genetics or biotechnology—what happened to Arthur Asch's company was predictable.

Asch's New York-based Bio-Medical Sciences, Inc., a manufacturer of disposable medical supplies and thermometers, should be worth a ride, some investors reason, on name alone. But then the name changed, to Oak Hill Sportswear Corp. Had Asch discovered a way to clone polyester or make socks grow on trees? Not really, he says. Over 95% of the company's business—and profits—comes from ladies' sportswear; medical instruments are just a small division. So the company decided to change its name to "clear up any confusion."

And what about those investors who bought in a speculative fever? Says Asch: "Boy, were they surprised."—Laura Saunders

GUESS WHICH STATE'S BUSINESS CLIMATE WAS RANKED BEST IN AMERICA FOR THE SECOND STRAIGHT YEAR.

We'll even give you some hints.

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It's a state
first invented. It's the state whose government sees its job as helping companies do *their* job—making products with high efficiency and low cost. In short, it's the state that Alexander Grant & Company's independent, annual study again showed leading all the rest in a combination of 22 "important factors that affect business success." If you still haven't guessed which state it is, Bob Williamson of our Division of Economic Development will be delighted to tell you.

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A buyer's guide to the financial supermarkets

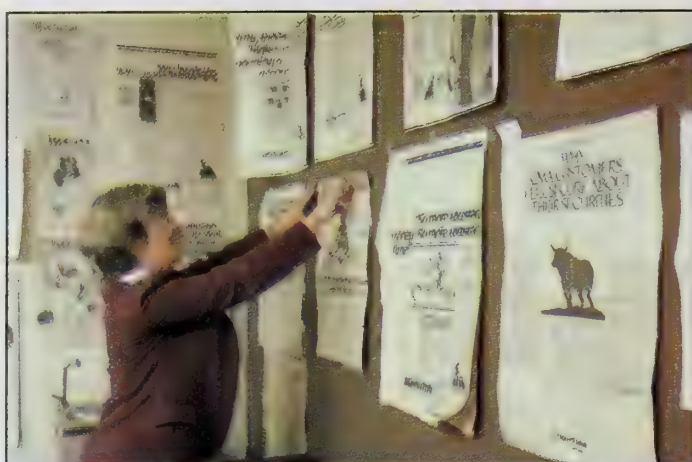
By William G. Flanagan
with Janet Bamford

THE BIG BANKS and brokerage houses are out to snare you. And chances are, well-heeled reader, they will succeed, if they have not already.

What do they want this time? Your money, of course. But now they are serious. No more bits and pieces—a money account here, an IRA plan there, some stocks and bonds, a T bill or CD on occasion. Now they want to manage the whole enchilada, every nickel and dime you have. All your cash savings. The money in your checking account. Your money market account. Your securities portfolio. Your loans. Your credit card trade. Even the equity in your home. In short, they all want to marry you, for your money, until death do you part. It is heralded as an innovation that will do to ordinary banks and brokerage houses what the supermarket did to the greengrocer a half century ago.

Should you surrender? If so, to whom? The answer to the first question is probably yes, the likelihood rising with the size of your assets. The answer to the second should be a lot clearer after you consult the table on pages 146 and 147. There we list the requirements and features of the programs offered by leading brokers, banks and mutual funds. It amounts to a roundup of what's to be found on some of the shelves of these financial supermarkets.

The scramble for five- and six-figure customers is getting frantic as the



Pru-Bache's Nancy Reed keeping tabs on the competition
All major brokers, following Merrill Lynch's lead, now offer managed cash accounts. It's a matter of survival.

once clear line between brokers and bankers continues to blur and as Washington eases up even more on regulations that once kept them off each other's turf. One ironic twist of the new rules: Banks can peddle stocks more cheaply than big brokers can. On the flip side, brokers can offer better loan rates than banks can.

There has been precious little profit in it thus far for most of them. Only Merrill Lynch is thought to be making any money on its Cash Management Account. But all the players clearly feel they have no choice. It's their hope, and their fear, that once you start shopping under one of those roofs, you are not likely to stray.

The bait that brokers and bankers are using to get you in out of the cold is the managed cash account. For \$100 a year or less, which is even at least partly tax deductible, you get a raft of financial services that were blue-sky stuff only a few years ago. The smorgasbord includes:

☐ Free, unlimited checking.

☐ A single, consolidated monthly statement listing all your financial transactions—securities bought and sold, checks written, credit card transactions, cash withdrawn and deposits made, the market value of your portfolio, your buying power, your short interest, your overdraft status, etc.

☐ Low-interest loans made against your portfolio (from brokers).

☐ Discount stock and bond transactions (from bankers and others).

☐ Coupons on bonds automatically clipped, cashed and deposited, at no cost

to the customer.

☐ Automatic reinvestment of all dividends.

☐ One or more money market accounts, into which idle cash is automatically swept, so it can earn high interest.

☐ A Visa, MasterCard Gold Card or American Express Gold Card.

☐ Ability to gain instant access to all your cash and credit, in some cases 24 hours a day, worldwide.

☐ Free traveler's checks.

☐ A year-end tax statement broken down into as many as 99 categories.

☐ A buying service, covering over 60,000 categories of goods you can shop for by phone.

☐ Toll-free telephone access to service representatives to straighten out problems on your statement.

☐ Insurance on your assets of up to \$25 million.

Not every major broker or every bank provides every one of the above services, but many of them now do, or soon will. Most big banks are still

Personal Affairs

Edited by William G. Flanagan

bundling their managed cash programs—that is, combining a number of services in a single account—but meanwhile they are offering more and more services, as the law permits.

What is truly remarkable about this new breed of account is the fact that it is so cheap. Discounting the credit card, which in some cases is optional, the cost of all the other financial services comes to a mere \$25 to \$60 a year. Actually, you don't have to throw everything you have into one of these accounts. Generally speaking, you need only \$10,000, in cash and/or securities. Only \$1,000 is required to open some accounts. So it is possible for people with substantial assets to have an omnibus account with one institution while maintaining a continuing relationship with their old banker or broker. Splitting your business does deprive you of the full advantages of the one-stop consolidated monthly statement, but it has the offsetting advantage of providing access to a wider variety of services and sources of advice and information.

In effect, the bookkeeping for this consolidated statement is a loss leader for the institution providing it. The profits will come from the services that lead to the bookkeeping—management fees on the money market accounts, commissions on stock and bond transactions, interest on loans, fees on stocks that are loaned, to name a few.

These new accounts are tailored for well-to-do customers—for good reasons. "The 20-80 rule of economics, where 20% of the customers give you 80% of the business, holds true consistently throughout the financial services business," notes Edward Furash, a Washington, D.C.-based consultant on financial services.

While there is no question that managed cash accounts are a very good deal for most people who qualify—they are already paying some or all of those charges anyway—there are some drawbacks. To name the most common problems:

- The statements. Generated by computer and groaning with data, they can be confusing. In time most statements should be easier to digest. "The accounts you see now are only a way



Buying stock at a branch of Citibank, at discount



Merrill Lynch rep explains CMA—including checking and loan features



At Sears outlet, shoppers can buy insurance and stocks, and cash checks

The era of one-stop shopping for financial services has indeed arrived. The bigger your account, the more sense it makes, and the more you will be solicited by brokers, bankers and others.



station," says consultant Furash.

■ **Canceled checks.** Many brokers do not supply their customers with canceled checks each month. Their statements record all checking transactions, including the numbers of the checks. In some cases, the client can encode checks, indicating the type of transaction. But to retrieve a check physically, if required, can take addi-

tional days and costs \$1.25 or so. When you have to produce a canceled check to prove to the IRS or a sloppy storekeeper or the parking violation bureau that you have indeed paid a bill, retrieving your checks can be a nuisance. (But Elaine Hart, director of Shearson/American Express' FMA marketing, points out that most customers still maintain personal check-

The financial smorgasbord

Below is a sampling of what some of the larger firms are offering up to customers in the way of central assets accounts. All have standard characteristics: a checking account, a brokerage account, money funds, a debit or

Central Assets Accounts	Minimum initial investment cash or securities (\$thousands)	Minimum account balance ¹	Yearly fee	Sweep of funds into money market	Routinely return canceled checks?	Insurance incl.
Merrill Lynch: Cash Management Account	\$20	discretion of account executive	\$50	\$1,000 or more daily under \$1,000 weekly	no	\$1
Dean Witter: Active Assets Account	20	discretion of account executive	50	all funds daily	no	\$1
Shearson/American Express: Financial Management Account	15	discretion of account executive	100	\$1,000 or more daily under \$1,000 weekly	no	\$1
Prudential-Bache: Command Account	20	discretion of account executive	50	\$1,000 or more daily under \$1,000 weekly	no	\$1
EF Hutton: Asset Management Account Asset Reserve Account	10 (cash) 20 (securities or combination)	discretion of account executive ²	80 (AMA) 40 (ARA)	\$1,000 or more daily \$100 or more weekly \$1 or more monthly	yes	\$1
Paine Webber: Resource Management Account	15	discretion of account executive ³	100 60 (with-out card)	\$500 or more daily under \$500 weekly	yes	\$1
Smith Barney: Vantage Account	20	discretion of account executive ³	100	\$1,000 or more daily under \$1,000 weekly	no	\$1
Kidder Peabody: Premium Account	25	discretion of account executive ³	75	\$1,000 or more daily under \$1,000 weekly	no	\$1
AG Edwards: Total Asset Account	20	discretion of account executive	50	div. and int. weekly \$500 or more daily under \$500 weekly	no	\$1
Advest: Advest Reserve Cash Account	5	discretion of account executive	25	all funds daily over \$100 weekly into tax-exempt	no	\$2
Fidelity: Ultra Service Account	10	\$5,000 (cash)	36	\$500 or more daily under \$500 weekly	yes	\$1
Citibank: Focus	10	discretion of account executive	60	all funds daily	yes	\$50 \$10
Crocker National Bank: Working Capital Account	10	discretion of account executive	90	all funds daily	yes	\$50 \$10
Charles Schwab: One Account	1 (cash) 5 (securities)	\$500	60 (if below \$10,000 balance)	all funds daily	no	\$2

Margin account regulations require minimum equity of \$2,000. ²Account may be closed if balance is below \$5,000 for two consecutive months. ³Under certain circumstances, account may be closed if balance is below \$10,000. ⁴Accounts are debited only once a month. NA: not available.

ing accounts in banks to take care of household bills.)

Man versus computer. Getting explanations, making changes or correcting errors can be trying. And problems and mistakes do occur, of course. We get the usual clinkers that everyone gets," says Jim Howard, vice president of Dean Witter, "the lost card, all the Murphy's law things—all the nor-

mal broker things that can go wrong." If you cannot solve the problem over the phone with a service representative, you might find your broker less than eager to help you, especially if the problem is not related to your securities transactions. "They didn't get into the business to be tellers," says Mike Lipper of Lipper Analytical Services. Merrill Lynch is now setting up cus-

tomers service centers in its branches. But getting eyeball-to-eyeball service on brokers' managed cash accounts is still not easy. And while there are bodies at bank branches, it remains to be seen how helpful they will be in straightening out complex securities problems.

■ The debit card. With many accounts, your Visa or MasterCard acts

and some sort of comprehensive statement that ties it all together for you. And the is, both the servers and the services keep multiplying. Look for more banks, mutual funds and smaller brokerage firms to come roaring into the marketplace.

	Statement list features	Number of accounts	Card	Startup date	Current assets controlled by accounts (6/30/83)	Extra features
et s	check payee	940,000	VISA debit	9/77	\$75 billion	securities research
et s	check payee check coding—20 personal and tax categories	110,000	VISA debit	3/82	\$9 billion	securities research check cashing at 850 Sears stores
et s	check payee check coding—8 personal and tax categories	32,000	American Express Gold ⁴	2/82	\$4.3 billion	securities research
et s	check payee check coding—7 personal and tax categories	36,000	VISA debit	2/82	\$3.6 billion	securities research command buying service
et s	only amount of check written	14,000	American Express Gold ⁴	6/82 5/83	\$165 million	securities research
et s	only amount of check written	15,000	MasterCard ⁴ (optional)	3/83	\$2.4 billion	securities research
et s	check payee check coding—1 personal or tax category	NA	American Express Gold ⁴	3/83	NA	securities research
et s	check payee	6,000	VISA debit	6/82	\$900 million	securities research
et s	check payee	10,000	VISA debit	2/82	\$450 million	securities research
et	check payee	5,000	VISA debit	11/81	NA	securities research
et	check payee check coding—99 personal and tax categories	15,500	MasterCard Gold ⁴	2/83	\$470 million (money funds only)	discount brokerage
et s	check payee	NA	VISA debit	4/83	\$20 million	discount brokerage
et s	only amount of check written	NA	VISA debit	5/82	NA	discount brokerage account available only in California
et t	only amount of check written	23,000	VISA debit + 1% rebate	11/81	\$170 million	discount brokerage

like a plastic check that allows you instant access to all the cash in your account, plus the money in your money market account, plus the margin limit on your securities. That's great if you buy a Pissarro while passing through Paris but a nightmare if you lose the card and the "finder" strolls into a bank and taps into your account. Merrill Lynch says misuse of

its Visa cards shouldn't trouble customers unduly, as they are liable only for \$50 if the card is stolen. Still. . .

Also, an undisciplined customer could easily go overboard with that much cash access. "If you're granting people credit who don't know how to use it, it gets scary," says Mike Lipper. "There is nothing wrong with margin debt as long as the money is

being put to productive use. If you wind up hitting your assets to take a dozen people to La Côte Basque and drop \$2,000 there, that creates a debt structure you're not used to."

Finally, using the debit card against your own assets denies you the float that ordinary credit cards permit—up to 45 days. (Note, however, that some cash accounts won't offer a debit card

The thundering herd sees red

At last count Merrill Lynch had signed up close to a million CMA accounts, more than double the number opened by Dean Witter, Shearson, Paine Webber and all the rest combined. But far from feeling smug about its competitors, Merrill Lynch is mad as hell. It has turned its lawyers loose and gone into court demanding competitors pay to use its patented CMA program.

Why the anger? Besides feeling its product—painstakingly developed for years—was being stolen, there was the touchy matter of a strategic talent raid.

There were four key defections from Merrill Lynch's CMA development team. Neil See, who was second-in-command at CMA, was wooed away by Dean Witter in 1980. Three others left the herd in 1981: Nancy Reed, who was in CMA product development, became marketing director of Pru-Bache's Command Account program; Elaine Hart, who had been CMA services manager, joined Shearson/American Express to head up its Financial Management Account business; and Rick Roeder, a lawyer who was instrumental in getting the CMA over regulatory hurdles, likewise joined Shearson that year. (Roeder has since left Shearson.)

The first legal salvo, demanding compensation from other brokers, was fired last summer. On Sept. 14, in a letter to nine brokerage firms, over President William Schreyer's signature, Merrill advised:

"As you may already know, on Aug. 24, 1982, the U.S. Patent and Trademark Office issued Patent No. 4,346,442 on certain features of our Cash Management Account financial service and its underlying system. We believe that [name of recipient firm's] financial service employs these same features and that you will, therefore, be interested in obtaining a license under our patent. To that end, enclosed is a license agreement."

Enclosed with that marvelously self-assured letter was a six-page contract that, among other things, called for the licensee to pay Merrill \$10 a year for every account. It also asserted Merrill's right to have all licensees' books and records examined.

Schreyer's letter, predictably, intimidated no one.

"You can't patent oxygen," said James Howard, who is in charge of communications for Dean Witter's Active Assets Account. "It seems as if Merrill Lynch is trying to hold the rest of the investment community hostage," Bache chief George Ball quipped, "but I doubt that they can do it with a water pistol."

Paine Webber replied

with a lawsuit. In a motion filed in U.S. District Court in Wilmington, Del., Paine Webber asked the court to declare the CMA patent invalid.

Merrill countersued Paine Webber and, while it was at it, sued Dean Witter as well, claiming that its patent was indeed valid and had been infringed upon. (Patent 4,346,442, let the record show, is an 11-page document that includes a detailed description—including flow charts—of the data processing methodology used in the Cash Management Account.)

Why was Dean Witter brought into the suit? James Grady Jr., general counsel for Merrill Lynch, explains: "We considered that Dean Witter was using a product extremely similar to our CMA and that they had achieved their product, at least in part, because they had hired an employee [Neil See] who had worked for Merrill Lynch and who had been very directly involved in the development of our CMA." Another reason: Dean Witter, owned by merchandising giant Sears, Roebuck and with about 68,000 Active Asset Accounts at the time, was CMA's largest competitor. It still is.

In May the judge hearing the case, James Latchum, separated Merrill's quarrel with Dean Witter from the Paine Webber dispute. Each is being heard individually. He also ruled that Merrill's patent could not immediately be declared valid or invalid and that the issue must be tried. Further litigation is expected.

Merrill's pursuit of Dean Witter may be complicated by See's retirement on July 1. Although See falls well short of retirement age, "his health isn't good," explains Dean Witter Chairman Robert Gardner.

Will the court uphold the patent? "It's difficult to say," says patent attorney Bruce Hamburg. "Strictly on the basis of past court decisions, Paine Webber would seem to have a 2-to-1 chance of winning," he notes.

Its resort to law, according to Merrill attorney Grady, is not to exclude others from using CMA-type accounts but to attain "full recognition of the fact that this is a Merrill Lynch invention." Maybe so, but some observers feel that if the patent is upheld and the licensing bid is successful, the financial services industry as a whole will suffer. "If Merrill Lynch pulls this off," says consultant Edward Furash, "it will bring on a new era in which people will use both patents and lawsuits to fight competition. I'm not sure that's very productive."

Meanwhile the whole question could become moot. Merrill seems keenly aware that there is a finite number of fat-cat accounts to be had in the marketplace, and the banks have not yet begun to fight. Time is of the essence. So while the competition labors under a legal cloud, Merrill is happily signing up roughly 3,500 new accounts a week. Living well may be its best revenge.—Kevin McManus



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And in TWA's Ambassador Class, you get a lot more than a roomy cabin.

In addition to complimentary cocktails, your meal includes an appetizer, a choice of three entrees (served on fine china) and a selection of international wines. And to top it off, you can sit back and relax with cognac or a liqueur.

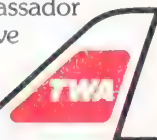
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Personal Affairs

if you don't want it, and some also offer traditional credit cards.)

Merrill Lynch's CMA chief, Michael Sanderson, is aware of the possible abuses of the debit card, and the fact that the customer loses float, but insists that the firm's wealthiest customers prefer it that way. "They have enough credit as it is with other cards. The debit card is the card of the future," he says.

■ **Statement security.** When you put all your financial eggs in one basket and get 12 monthly statements and one annual statement a year, for example, which detail every significant thing you've done with your money all year, you'd better watch out whose eyes fall on those statements. In some firms the brokers can peruse your complete statements if they care to, and you might not like that. One broker, for example, took special note of how much a client was spending each month to see a psychiatrist. If you, like many active traders, use a discount as well as a full-service broker, you might not like your regular broker to know that you have been writing checks to the discounter.

Obviously, too, a soon-to-split spouse who runs off to an attorney with a copy of your statement has a lot of ammunition in a divorce proceeding. And the IRS, if you are hiding anything, would love to see your statements—and could easily subpoena them.

■ **Making deposits.** With some accounts it can be a nuisance to make cash deposits, especially if you are used to automatic payroll depositing. Although some firms may introduce a direct deposit service in the future, at present most still accept only your personal check as a deposit.

■ **Closing an account.** If, because of poor service, a move or any other reason, you want to close your managed cash account, you might find it time-consuming and frustrating. With so many wheels spinning, it's hard to stop them all simultaneously. Com-

petitors complain that some Merrill Lynch customers who tried to switch their accounts have encountered seemingly needless delay. Merrill's Sanderson replies that customers who close CMA accounts slow the process unnecessarily by not turning in their credit cards and checkbooks right away. Checks in the pipeline, as well as credit charges, can take time to filter through, he also points out.

Nevertheless, most well-heeled customers will find that the flaws and potential problems are outweighed by the benefits of these new types of accounts. A sizable market already has been found, as evidenced by Merrill Lynch's success in signing up close to 1 million customers so far for its Cash Management Account. Every major competing broker now offers its own



Broker living it up in Chemical Bank ad

Deregulation is allowing banks to get back at brokers for invading their turf.

version of CMA. In some cases these versions so closely resemble Merrill Lynch's patented CMA that Merrill has sued some firms and is trying to exact royalties from practically everybody on The Street (see box, p. 148).

It's understandable why Merrill is being testy. It originated its CMA in 1977 and had to break a lot of costly ground to get the product launched. But the notion itself is not extraordinary. All issuers agree that the biggest single selling point of these accounts is simply the ability to put idle cash to work. Depending upon the account, and the amount of cash, funds are swept daily or weekly from the checking account into money market accounts. Says Nancy Reed, vice president of marketing for Prudential-Bache's Command Account: "The cornerstone of all these products is the sweep feature."

It's a product whose time, clearly, has come. "The homogenization of the financial services industry came about because of the openings created

by inflation," says Edward Furash. "Consumers wanted higher rates on their deposits, which created the money market funds. And there were major shifts in consumer attitudes that caused them to be far more interested, because of inflation, in alternative investments and the ability to move funds around, and in being able to capitalize on borrowing power."

It is, of course, only very recently that banks have been able to satisfy this core demand of consumers—to have "extra" money on deposit earning money market interest. But no moss has been growing under such traditionally aggressive banks as Chemical, Citibank or Bank of America. Citibank launched its Focus program in mid-April 1983 and already has over \$20 million in deposits. Not

bad, considering it is advertised heavily only in New York City. Bank of America bought discount broker Charles Schwab last spring and added its considerable muscle to Schwab's existing managed cash account, which is, of course, national. Chemical Bank, which is already offering customers discount brokerage services, is busy hammering out its own scheme. Says William Turner, executive vice president: "We are working on a CMA-type program that will probably be ready before year-end."

How does all this competition affect you? The affluent consumer can only benefit as the bankers and brokers slug it out for control of your cash. More financial services—automatic payroll depositing, travel services and automatic bill paying—are bound to be tacked onto managed cash accounts at little or no cost.

Which one will be best? "I think it is a mistake for anyone to think that a single product is going to dominate the financial services industry any more than a single type of car dominates the automobile industry," says Furash. "The real question for most of the institutions is whether the markets are large enough to make what they intend to introduce sufficiently profitable in the face of many competitors. And the guts of that answer lies in merchandising."

The bankers and brokers have lusted after one another's markets for years, and now they can all duke it out. Whatever happens, you will come out the real winner. ■

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Faces Behind The Figures

Edited by John R. Dorfman

Mining Wall Street

It's tough to guess what the price of gold will be next week, never mind years from now. But Harry Conger, the 52-year-old chairman of Homestake Mining Co., the country's largest gold miner, doesn't care. "We know that gold has always stayed ahead of inflation," he says, "and that gold prices have cycles. But these cycles are manageable. If we keep our operating margins somewhere in the middle of our competitors' we'll make money. After all, our deposits rank with any of our competitors.'"

They sure do. The namesake lode in

tures. Last summer things looked grim. Gold was selling at about \$295 an ounce, which is dismal, considering that it now costs the company about \$310 an ounce to mine its Homestake lode. Workers at the South Dakota mine had just gone on strike, an action which was to last 118 days, the longest in the mine's history. Conger and his crew decided they had little choice but to arrange for an \$80 million line of credit. But when the stock market and the price of gold began to pick up, Conger decided instead to mine Wall Street for capital.

Last December the company prepared a "415" (shelf registration) and sat back to wait for the right time to sell equity. In seven sales since then the company has sold 3 million shares, and raised \$87 million, at what it figures to be a considerable saving. General Counsel William Langston estimates that outside legal and printing expenses for selling the shares were less than \$65,000, and that Homestake saved at least \$3 mil-

lions," he says. But now the boss reluctantly stays away from the mines because, he says, "when I'm around, everybody stops working."

With gold recently at \$430 an ounce and the rich McLaughlin find coming on line with production costs estimated at a nice low \$225 an ounce, no wonder Conger wants to let the work go on.—Janet Bamford

Shake-up time

"It was never meant to be a profit-making operation," John Hoagland Jr. says of the *Christian Science Monitor*, the newspaper he took charge of six months ago. "On the other hand," he adds, "it was never meant to lose \$10 million." That's about what the 75-year-old *Monitor*, flagship of the Christian Science Publishing Society, lost last fiscal year. Hoagland, manager of the Publishing Society, expects it to lose about as much again this year, on estimated revenues of around \$30 million.

What went wrong? In the early 1960s the *Monitor* was in the black, had a stable circulation around 175,000 and sold more than 7 million lines of advertising a year. Today circulation has ebbed to 151,000. Hoagland prefers not to reveal the ad-line count but says it's "down significantly" from the total back in the *Monitor*'s best days.

In those glory years (1944-61) the shop was run by John's father, who sat at the desk John now occupies. The elder Hoagland was a veteran journalist, who spent years at the Louisville *Courier-Journal*. John Jr. followed a different route. From 1951-61 he was in intelligence work, mainly with the CIA. After that he worked as a business consultant, first with Secor Browne (later chairman of the Civil Aeronautics Board) and more recently for his own firm, Hoagland, MacLachlin & Co., Inc., in Wellesley, Mass. (A devout Christian Scientist, he took a pay cut to come to the *Monitor* and its smaller sister publications, which, unlike the *Monitor*, are specifically religious.) Outside of work, he says, his main interests are his family and the backwoods of Maine.

It's definitely shake-up time at the *Monitor*. Hoagland and the Society's board have installed new top editors (headed by Katherine Fanning, former editor and publisher of the *Anchorage Daily News*), poured money into the atrophied advertising department, reorganized the paper's circulation operations and hired Robert Lockwood (who redesigned the *Baltimore Sun* and the *Chicago Sun-Times*) to give the



Homestake Mining Co. Chairman Harry Conger
What does he care about the price of gold?

South Dakota has been producing gold since 1875. In 1980 the company announced a find in Napa Valley, north of San Francisco: the McLaughlin tract, which is one of the largest finds in the U.S. in this century.

But it takes money to make money. Conger estimates that development of the McLaughlin mine will require about \$200 million in capital expendi-

lion by not selling the shares under a traditional offering. "McLaughlin is now fully funded," says Conger. "We don't expect we'll have to touch the \$80 million line of credit."

A former mining engineer, Conger lives in the desert east of Homestake's San Francisco headquarters. "My wife and I got used to the heat and dryness after years of living near mining



John Hoagland Jr. of the Christian Science Monitor

10 million was a little more than they planned on losing.

Monitor a face-lift.

Despite its problems, the *Monitor* still has strengths: detailed foreign affairs reporting, a strong op-ed page and loyal core of subscribers (about half of them Christian Scientists) who renew 90% of all subscriptions over two years old. To grab new subscribers, Hoagland plans a two-year ad campaign featuring endorsements from such celebrities as Admiral Stansfield Turner, actress Jean Stapleton and former presidential candidate Barry Goldwater.—J.R.D.

Chairman of the boards

Imagine a U.S. citizen simultaneously serving as the chairman of the board of three companies. That's hardly the general rule in Britain, either. But it is more likely there. Witness Sir David Nicolson.

Nicolson is chairman of three boards, notably BTR Plc., a middle-size (\$1.1 billion sales) but fast-growing conglomerate that has just acquired Thomas Tilling Plc., another British conglomerate more than three times its size.

BTR made a novel pitch to Tilling's shareholders. The idea was to show them—right in the prospectus, in big print and bold color—how much more profitable it would be to hold BTR shares than Tilling shares. Sir David has a good case: BTR's profits performance has been impressive in the past five years, while Tilling's profits have sagged. In fact, Nicolson offered Tilling holders their choice of BTR shares or cash, and 95% took shares. As a result, beams Nicolson, there will be no need to sell any parts of Tilling to finance the takeover.

But the merger does throw off BTR's carefully achieved near-equal balance among European, U.S. and other markets, since Tilling is weighted toward the U.K. To redress that balance, Nicolson says the restructured company will be seeking new markets outside Britain. "We had it just about right, and then we got Tilling," observes Nicolson. "Now we will work back toward that distribution in the future."

The job of putting it all together will fall more to Owen Green, BTR's managing director and chief executive, than to Sir David. Says he, "I am a professional board chairman." He took over as chairman of BTR in 1969, assumed the chairmanship of Rothmans International in 1975 and added Selincourt, a smaller textile company,

in 1982. Along the way he was asked by the British government to reorganize its national airlines, resulting in the creation of British Airways in 1972, the achievement for which he was knighted.

Besides all that, Sir David is active in the American European Community Association, which he founded in 1981, and represents central London in the European parliament. He considers the job of board chairman to be a specialized field. "I think in Britain management of boards has been a neglected subject," he says. But clearly not by him.—Priscilla S. Meyer

Stunt man

Dick Kress, the 56-year-old president of Norelco, has some funny ways of motivating his sales representatives. At annual sales conferences, Kress has rappelled down buildings, "flown" across streets dressed as "Norelco Man" and even gone a few rounds with Mark the Butcher, a professional wrestler. Has all this helped Norelco, a consumer products division of North American Philips? Kress thinks so, of course, but so do several industry analysts.

Norelco is number one in electric shavers, with a 60% share of the \$210 million (retail) U.S. market. It also manufactures personal care and home health care items, and small electric appliances such as coffee makers and clean-air machines. Altogether, a good guess is that the firm will book about \$270 million in sales this year, perhaps 7% of parent North American Philips Corp.'s \$3.7 billion estimated total sales for 1983. Charles Ryan, a Merrill Lynch analyst, pegs



Sir David Nicolson of BTR

Three chairmanships and a knighthood to boot.

Faces

Behind the Figures

Norelco's estimated profits at approximately \$25 million, and its return on capital at a healthy 16% or so. Earnings are growing about 8% to 10% a year, figures Ryan.

Kress, who holds a Wharton M.B.A. and had been Norelco's advertising director before becoming president in 1971, says he has made Norelco the largest advertiser in small electric appliances. Over 40% of the firm's advertising is done between Thanksgiving and Christmas, with 80% of that aimed at television. Recently he has begun targeting his advertising toward a younger segment of the market, trying to make inroads into the 65% of the shaving population that still uses blades and shaving cream. Ads feature Mark Gastineau, defensive end for the New York Jets, and boxer Gerry Cooney.

Kress' stunts began after he joined Norelco, following eight years with advertising agency N.W. Ayer. "I was a bad speaker

and presenter, so I started using props," he says. Another Kress nugget: "Only hire people you'd be happy to have in your home and play poker with."—Fran Lunzer

No experience required

Puzzle this one out. Archie McGill has spent most of his career working for two of America's corporate behemoths—IBM and AT&T. Not much in his resume would make you think of him as a venture capitalist.

Yet here's McGill, 52, heading one of the country's most prestigious venture capital firms—Rothschild Ventures Inc., the venture capital arm of Rothschild, Inc., the Rothschild family's American outpost. The firm currently has about \$275 million under management, some of it from the family but most raised from other limited partners. McGill, who took over in June, figures that he will be supervising the investment of about \$50 million to \$100 million a year.

A tall, down-to-earth man, McGill laughs off the suggestion that his big-business background makes him an unlikely venture capitalist. "Wherever I've been, I've been interested in new technology, new customers, new applications," he says. "I've been associated with the people who were the risk takers in the organization." Besides, McGill adds, he grew up in a small-business environment: "My father owned a string of restaurants. One of the first was a soda fountain concession inside a pool hall. My first job was helping out there."

A vice president at IBM at the age of



Archie McGill of Rothschild Ventures
Out of the behemoths into. . .

33, the youngest ever at that labyrinth of fast tracks, McGill left Big Blue in 1969 to found his own consulting firm, McGill Associates, which did general business consulting, especially for Japanese firms. (During that time, he put together some venture capital deals.) In 1973 he joined AT&T, first in marketing, and more recently as president of the 18,000 employee Advanced Information Systems division. One of Rothschild's attractions, he says, was that it can help promising new enterprises function from the start as international firms with offshore manufacturing, financing or marketing.

What does McGill look for in an entrepreneur? First and foremost, he says, the person should be "really committed to the idea, whatever it is. His eyes light up. He's excited by it. In a business plan he looks for careful attention to marketing and realistic "disciplined" financials. The idea that have excited him most so far are a new user-friendly computer workstation and—shades of his dad—a restaurant chain that wants to get into franchising.—J.R.D.

Small beer

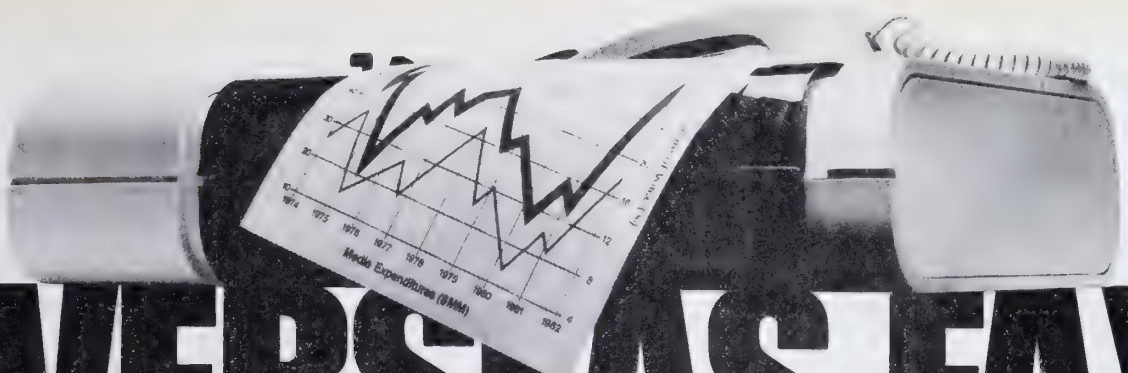
Suntory Ltd., with \$4 billion in sales is one of the world's largest liquor distillers. But in the Japanese beer market it's the smallest of four major brewers, with a mere 7% share. Rival Kirin boasts a glass-clinking 62%.

So Suntory is looking to the U.S. market, and that's where Raymond Tye comes in. Tye, 59, runs United Liquors, Ltd., a liquor distributorship in Boston, a reliable beer-drinking town. Back in 1981 Tye unsuccessfully sought to distribute Suntory in the U.S. Now Suntory has come back to



Norelco's Dick Kress

What does Mark the Butcher have to do with selling shavers?



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**Transmission times vary depending on type of equipment used.



Another reason the world is sold on Bell.

Faces Behind the Figures

Tye's sole proprietorship (\$125 million sales) for help. The two firms are testing the Boston market, selling Suntory in bottles and unorthodox 2-liter (72-ounce) plastic kegs.

Such kegs were introduced in Japan about a year ago but are new in the U.S. Tye hopes the unusual packaging will make the product stand out. But will people buy beer in plastic kegs? Skeptics abound.



Liquor distributor Raymond Tye
If in Japan you don't succeed. . .

Some celebrated market research to the contrary notwithstanding, many Americans don't drink more than one beer at a time. Thus, the kegs may do no better than the offbeat 5-gallon "beer spheres" tried by Olympia and Genesee. "Unless Suntory has a better mousetrap," says Martin Romm, a First Boston analyst, "I just don't see it making any inroads."

Packaging aside, Tye and Suntory are moving at the right time, says Emanuel Goldman of Montgomery Securities. Imports have only 4.5% of the \$20 billion U.S. beer market but are growing much faster than domestic brands. Suntory is draft (unpasteurized) beer. In that respect, Suntory is similar to Coors, currently the only major U.S. brand that isn't pasteurized. Industry rumors say that one major brewer may come out with beer in kegs, just like Suntory. That

would probably be Coors, because pasteurized beer is heated in its containers—not something you would want to do with a plastic keg.

At about \$5 per keg or six-pack, Suntory is competitive with foreign brands and about \$1.50 above domestic brands.

Tye concedes that Suntory won't soon threaten the likes of Heineken for American market share. But at least among those who will try Japanese beer, he says, "Suntory has an opportunity." On this side of the Pacific, Kirin is not king.—Neal Koch

Ratings war

It hasn't been a great summer for Arbitron Ratings Co., the \$80 million (sales) outfit that has long been bigger but remains less well known than A.C. Nielsen Co. in the broadcast ratings game. In June local TV stations in the huge New York market accused Arbitron of bad market share estimates. Only 25% of Arbitron's survey population is in cable TV homes, the stations charged, while the New York area's "cable universe" is more like 35% of all homes. Nielsen did better: Some 32% of its sample contained cable homes. With ratings extrapolated from those numbers and advertising charges based on ratings, this could be a multimillion-dollar foulup.

Arbitron President Theodore F. Shaker admits to the discrepancy.



Arbitron's Theodore Shaker
Don't laugh too soon, A.C. Nielsen.

Nielsen polls cable penetration four times a year, while Arbitron did so annually. With the growth of cable, no wonder Nielsen's more timely estimates seem more accurate. From now on, says Shaker, Arbitron will

sweep the cable market quarterly.

Nielsen will have little time to savor Arbitron's goof. Arbitron already has a huge piece of the estimated \$4 million market for radio ratings. It neck and neck with Nielsen in the \$100 million or so market for local TV ratings. It is about to go after the \$2 million national network ratings market, where Nielsen is all alone.

Several years ago the networks expressed little interest in Arbitron. The problem? It didn't have enough metered households. Since then it has spent over \$23 million to meter eight cities electronically, in addition to New York, Los Angeles and Chicago, giving Arbitron 11 metered markets and 5,700 machines—more than Nielsen on both scores. Six more cities are to be metered by 1984, giving Arbitron a total of 7,200 meters.

Arbitron hopes to play another high card: a better meter, which tells if the TV is using broadcast, cable, satellite or video-recorder technology and another meter that reveals (through periodic button-pressing by viewer) whether the TV set is actually being watched.

Broadcast ratings, of course, have long been a minor part of Nielsen's business, just 11% of last year's \$64 million in revenues. The rest comes from such things as market research and coupon-clearing. But ratings are Nielsen's hallmark. How will it respond? By following Arbitron into

more markets and by racing to develop the new meter technology, says James Lyons, president of Nielsen's media division. Shaker seems to have his competitor worried.—Jeff Blyskal



For all the commitments you make

Burning the midnight oil is sometimes necessary to keep our commitments to those who count most in our lives. Commitment is the key to making our family, home and business what we want them to be. And commitments

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worth keeping are worth thoughtful protection. The CNA Insurance Companies and the agents who represent us understand this. We provide all lines of insurance...to help those who make commitments keep them.

On the Docket

As one law school professor likes to tell his students, "When in doubt, sue. Sue everyone in sight. And then settle."

The long, grabby arm of the law

By Richard Greene

LA TE LAST YEAR a developer wanted to build homes on 160 acres of undeveloped property in Mayfield Heights, Ohio, a suburb of Cleveland. "No," said the city council. "I'll sue," said the developer. And he did. Not only the city, but each member of the city council, each member of the city planning commission, the city's law director, the city engineer, the city finance director and the mayor.

Says Jim Murphy, of Squire, Sanders & Dempsey, the firm representing all the officials, "When you sue somebody on a city council for \$3 million and he's probably earning \$500 a year for that job, it gets his attention."

The Mayfield case is only one of a seemingly endless stream of lawsuits in which a plaintiff sues not just the most obvious defendant, in this case the city, but scores of others. In this situation, says Murphy, it is likely that the developer simply wanted to throw a scare into the city officials. But whatever the reason for suing a large number of parties, one thing is clear: When you are sued, no matter how frivolous the suit, no matter how little liability you think you have in the matter, you have to defend yourself. And that costs money.

The epidemic of this so-called multidefendant litigation stems from a liberalization in the liability laws during the last decade or so. Lenient judges creating lenient precedents have allowed suits that would never have seen the light of a courtroom years ago. Explains Murphy: "The courts have nearly eliminated the so-called privity requirement. Under that doctrine, if I had a contract with

you to perform a certain service and you did it defectively, the only one who could sue you was me."

But why bother suing parties who have every chance of escaping scot-free? After all, plaintiffs' attorneys are generally paid on a contingency basis—so they only make money when they win.



First and foremost in the minds of aggressive lawyers, however, is the notion of the "deep pocket." If you are unlucky enough to get into an automobile accident with an uninsured individual, you will have a hard time getting any compensation. So, you try to sue the automobile company. "What good is getting a determination that your client is injured and

deserves compensation if there's no ability on the part of the defendant to compensate?" asks Richard Weinberger, senior litigation partner for Ballou, Stoll & Itzler, a large New York law firm.

Listen to John Townsend, a partner with Hughes Hubbard & Reed, one of the law firms that has helped defend Ford against allegations that its Pintos tend to catch fire in collisions. "In the Pinto cases, many of the accidents were just accidents involving drunk drivers," he explains. "But a lot of drunk drivers don't have more than \$10,000 insurance. So, the plaintiff's lawyer goes after Ford."

Sometimes, of course, the defendant with the deepest pocket is truly responsible for the damages. But often enough, the deep pocket is brought in for a shot at big money. In fact, there are even legal consulting firms that advertise their skill at turning negligence lawsuits into product liability suits. And since some large companies are quick to settle (it can be much cheaper than paying attorneys contesting the case), this strategy frequently pays off.

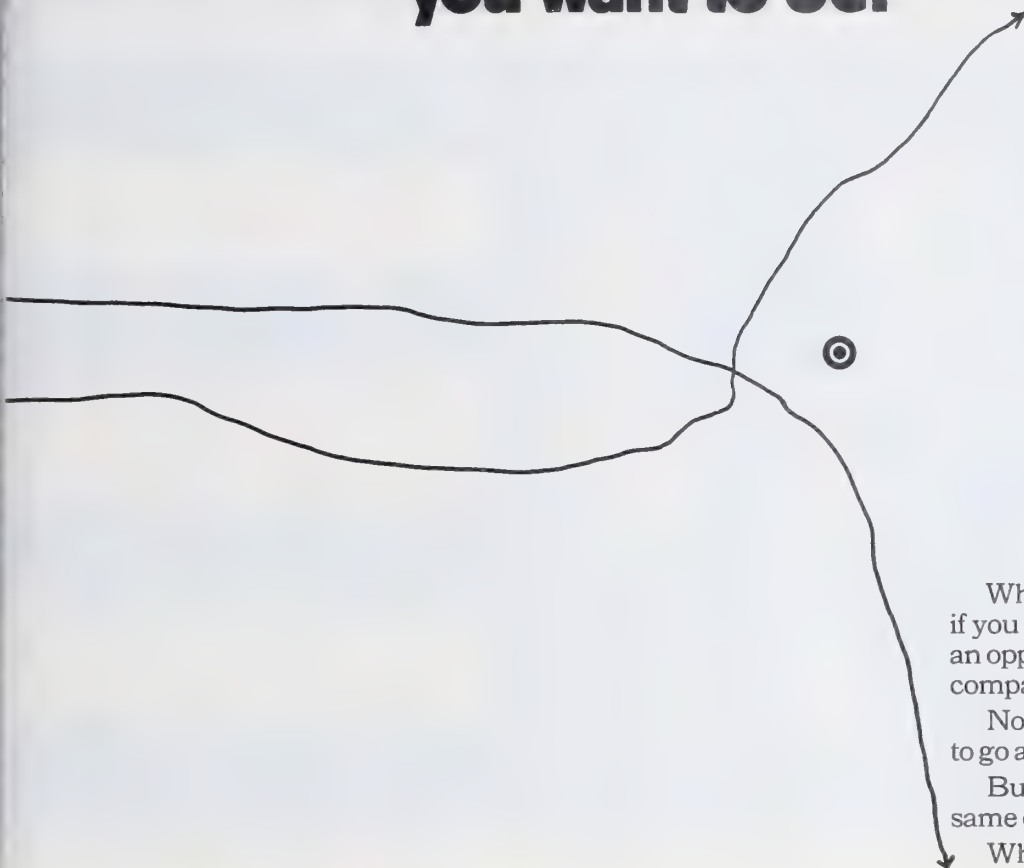
What's more, if the lawyers can't push a deep pocket into making a settlement and the case does come before a jury, the plaintiff who has brought in one or more large defendants has a better chance of winning than a plaintiff who has sued a human being. "The jury finds it easier to find a large corporate defendant liable than an individual," says William Newlin, managing partner of Buchanan Ingersoll, a Pittsburgh law firm.

Think about it. Would you return \$100 you found in the street if you knew who it belonged to? What if you got the same \$100 in change from a pay telephone? You would probably take the money faster from AT&T than from somebody who lost his wallet. Well, so would a jury.

Another reason for suing a number of parties is the statute of limitations. Time limits on bringing suits put pressure on plaintiffs' attorneys to make sure that they have gone after the right targets. "If you only have two years to file a lawsuit after the incident occurred, and you don't sue the right guy, then you're out of luck," says Murphy. "So, you sue everybody."

Unfortunately, while the practice of suing everyone in sight sometimes helps protect the plaintiff and almost always enriches his attorneys, it is done at the expense of society. Courts are crowded, and companies pass along their legal fees to customers. More wine on the table for lawyers and plain tap water for the rest of us. ■

Conventional credit doesn't always take you where you want to be.



What are you going to do if you suddenly come upon an opportunity that fits your company's long-term plan?

Now could be the time to go after it.

But maybe not in the same old ways.

What's needed now is to approach funding with an open mind. And a fresh point-of-view.

Maybe reviewing all the the same business factors will reveal something overlooked. (Just as most people overlooked the extra "the" in the preceding sentence.)

This new perspective may uncover that you're sitting on top of a way to generate the funds you need.

A funding approach that isn't "plain vanilla" credit.

Perhaps it's not even a loan at all.

The way we see it, the best kind of credit is the credit you take when your company's plan is on target.



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Our new Steel Group is committed to making Bethlehem the best steel producer in the United States



Walter F. Williams, President of Bethlehem Steel, serves as Group Executive. Left to right are the three Executive Vice Presidents: D. Sheldon Amot, Sales; Paul A. Henschen, Services; and Edward H. Kottcamp, Jr., Production.

...in productivity, quality, service and profitability.

That goal is a key element in Bethlehem's strategic plan — and we've made significant progress in achieving it.

One of the steps we've taken is setting up a new Steel Group...an independent business unit with expanded authority and responsibility for its results.

This Group is now accountable for the production of basic steel products, for the sale of those products, and for related services. Previously, those responsibilities were diffused among several departments.

Bethlehem already has some of the best steel-making operations in the United States, even in the world, and we intend to improve on that base.

Right now we're moving ahead on construction of a new bloom caster at our Steelton, Pa., plant and a new continuous heat-treating line at our Burns Harbor, Ind., plant. And we'll add *more modern facilities* (such as continuous casters) and improve on those we already have just as quickly as resources permit.

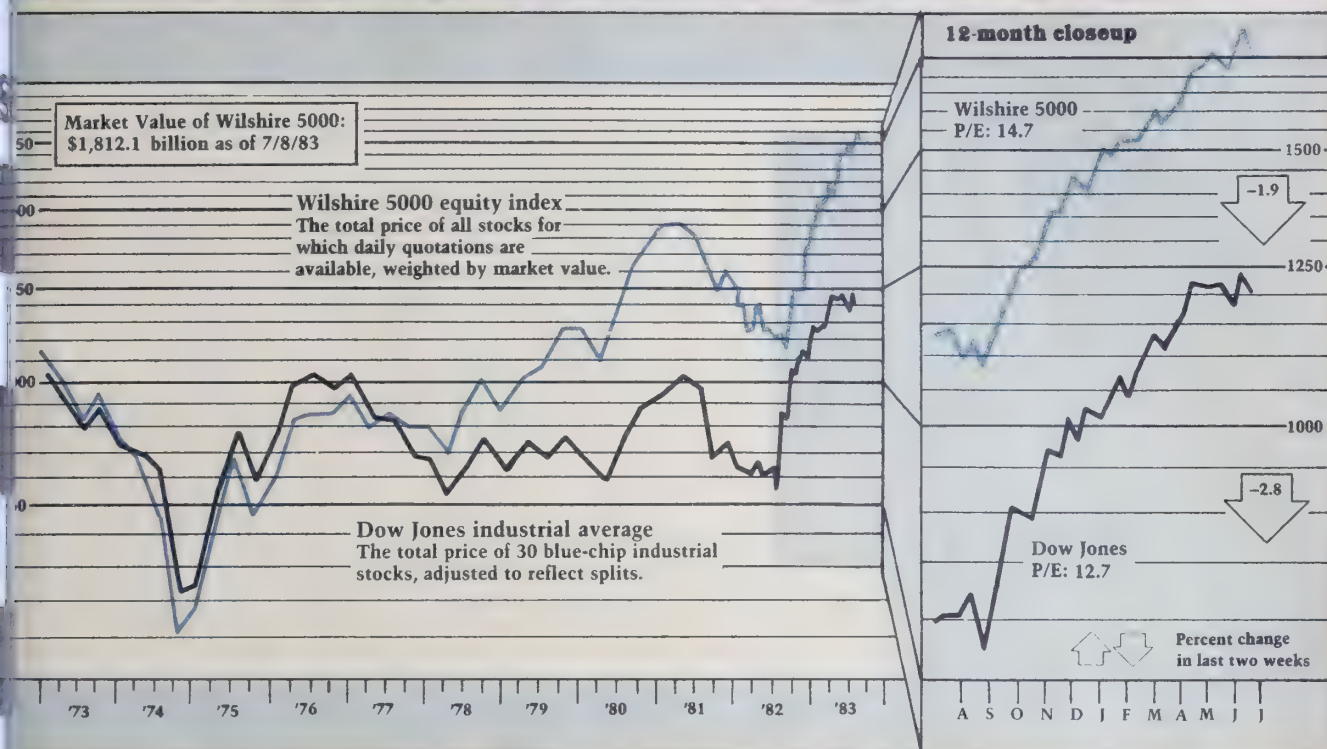
Yes, Bethlehem *is* in other businesses — such as manufactured products, raw materials, marine construction, building products, and plastics. And we intend to keep our diversification options open.

In the near term, however, our efforts and resources will be directed primarily to upgrading our steel operations.

Bethlehem

Bethlehem Steel Corporation
Bethlehem, PA 18016

The Forbes/Wilshire 5000 Review



surviving the heat. Although the market was unable to capitalize on recent gains, it did cope with profit-taking and fears of a rise in interest rates. The Dow industrials ended the two-week period at 1207. That is off 2.8%, but still above the 1200 level. NASDAQ issues suffered a similar setback. Oil and oil-related stocks, however, ran counter to the trend. That is part of the reason the Amex did relatively better, slipping only 0.3%. The Wilshire index shows that the overall market lost 1.9% during the period.

The Amex has emerged as a clear market leader. The Wilshire index indicates that the market as a whole is up

some 60% for the last 52 weeks, but the average Amex issue has almost doubled. Amex stocks have been particularly strong over the last month as well. During this time, the Amex gained 5.6%, vs. 2.6% for the NYSE and only 1.4% for NASDAQ issues. The Amex has moved ahead on the strength of the oils and technology groups.

During the last two weeks the price/earnings multiple of the Wilshire dropped from 14.9 to 14.7. But the 1.3% decline in the P/E ratio was less than the 1.9% fall in the Wilshire index. Earnings are rising. But they must continue to rise to sustain this bull market. Otherwise, a P/E of 14.7 will start looking very pricey.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ¹	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	2.6	2.7	0.9	2.6	5.6	1.4
in last 52 weeks	60.1	52.2	48.3	54.9	97.8	90.1

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	1.7	6.0	5.3	0.8	3.1	4.3	0.8	4.2	6.5	0.4	2.0	5.3
in last 52 weeks	62.6	173.7	169.5	61.4	124.6	162.6	53.4	165.8	182.2	62.5	78.6	165.0

Based on sales.

A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable

A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

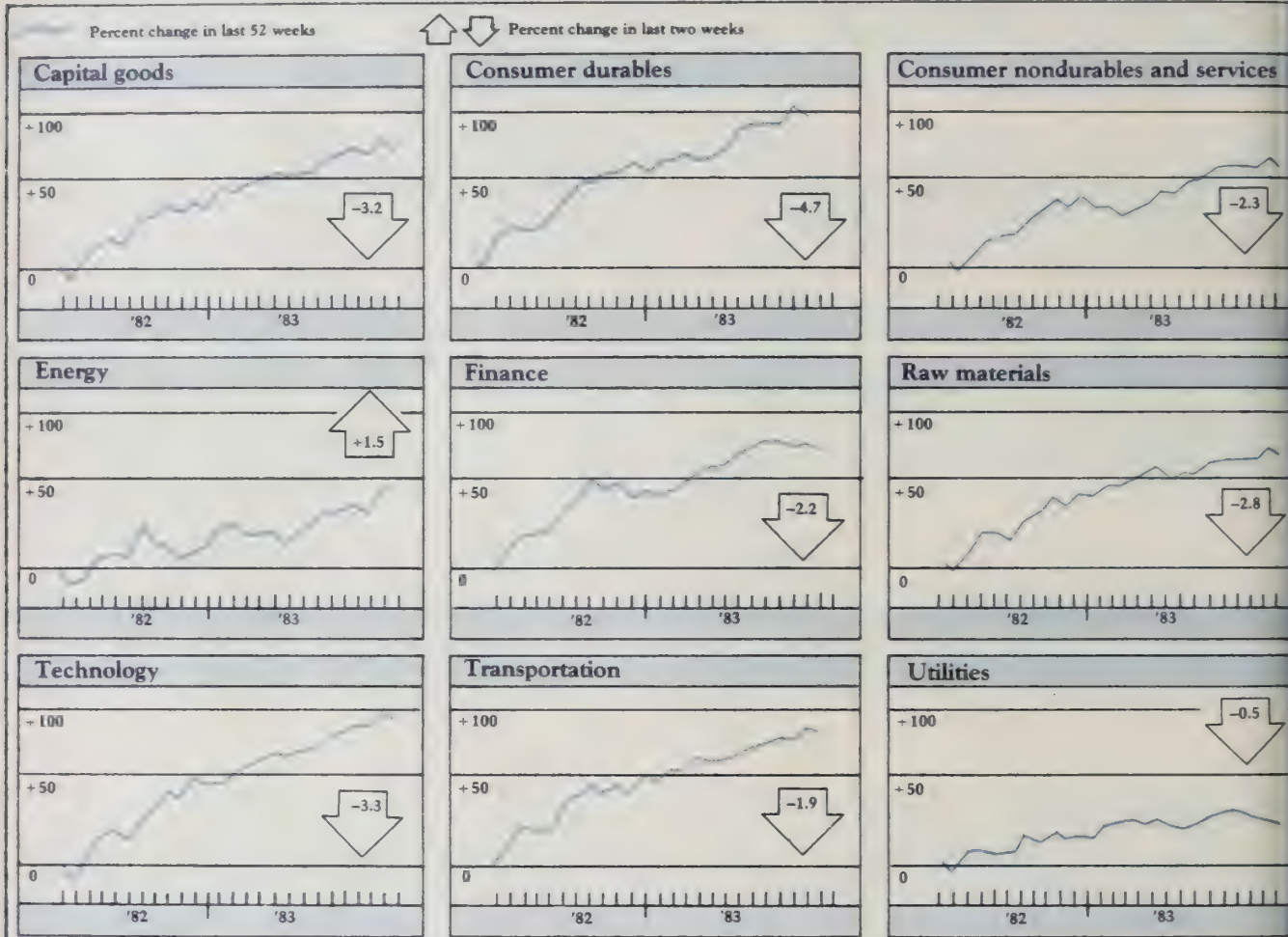
Note: All data for periods ending 7/8/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

High-octane performance. Over the last four weeks energy stocks were up 11.9%, outperforming the other eight sectors by a wide margin. And during the recent two-week period the oil group, with a 1.5% advance, was the only sector to post a gain. Oilfield-service issues were particularly hot.

Despite encouraging sales reports from the auto compa-

nies and major retail chains like Sears, K mart and Dayton-Hudson, consumer durables lost 4.7% and consumer nondurables, 2.3%. Capital goods and technology issues slipped more than 3%, and raw material and finance lost more than 2%. In the meantime, investors appeared to be hedging their bets on rising interest rates and were a little kinder to utility stocks: This group lost only 0.5%.



What The Analysts Think

A vote of confidence. The analysts strengthened the utility group's hold on first place with a strong 2.52 rating on the 1-to-5 buy/sell scale. Meanwhile, transportation and raw materials jumped in their rankings. But analysts, contrary to the market, are now less optimistic on energy shares, which have fallen from second to fourth place.

The experts' consensus		What The Analysts Think			
Opinion	Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
2.40	1	Utilities	2.52	1	1
2.48	2	Transportation	2.68	4	4
2.56	3	Raw materials	2.72	6	6
2.64	4	Energy	2.77	2	2
2.72	5	Capital goods	2.79	5	5
2.80	6	Finance	2.80	3	3
	7	Consumer nondurables	2.82	7	7
	8	Technology	2.88	8	8
	9	Consumer durables	2.98	9	9

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 100 institutional analysts. The consensus of opinion graph is the composite

rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization

Note: All data for periods ending 7/8/83. Prepared by Wilshire Associates, Santa Monica, Calif.

What do AT&T, RJR, IDS, CBS, and 3M have in common?

THE NATION'S NEWSPAPER

NEWSLINE

A QUICK READ ON THE TOP NEWS OF THE DAY

WEATHER: Flurries linger over Northeast from western Pennsylvania to New England. Storm in the Rockies from Arizona to Idaho brings snow to the high elevations, rain to the valleys. Showers due to Pacific Northwest, lower Mississippi Valley. Light snow and flurries fall over Kansas and Oklahoma. Full color page: 12A.

WALL STREET: Crosscurrents of good and bad economic news confound market. The Dow Jones index slips down 2.32 points to close at 1122.97. 8B.

STAND-IN: Mosca's Princess Caroline, left, attends Houston, Tex., dinner to promote rebuilding of London's Globe Theatre, a favorite project of her mother, the late Princess Grace. 2D.



ISRAELI PRESIDENT: Knesset rejects Begin nominee, selects Israeli-born Chaim Herzog, a former U.N. ambassador and political foe of prime minister. 9A.

NICARAGUA: USA accused of financing rebel invasion from Honduras. Nicaraguan officials request U.N. Security Council review as fighting escalates. 6A.

JOBS: Bill stalls short of final passage when House, Senate disagree on formula to distribute funds.

THREE MILE ISLAND: Engineer accuses plant owners of rushing cleanup, says man who goofed during 1979 accident has key role in repairs. 2A.

PHONY PROFESSOR: Pennsylvania officials jail man who posed as teacher at two colleges under two aliases; no identification made yet. 2A.

FPA NOMINEE: Congressional, business William

USA TODAY

VIA SATELLITE

Baseball \$\$\$

Phillies win games, lose money
Sports section, 1C

Weather across the USA

Color forecast, 12A



News of 50 states

Every day, plus Offbeat USA
News section, 6-7A

Health care: Employer-worker push urged to control costs

Special for USA TODAY

NEW YORK — Soaring medical bills are expected to cause consumers — led by corporations — to seek a better deal on costs, a new study said Tuesday.

Health costs hit a record \$287 billion in 1981 — 10 times higher than a decade earlier — and could rise to \$460 billion by 1985, said a survey done for Prevention Magazine.

The sampling of 207 business leaders and medical experts showed:

- 75 percent of employers said they were likely to pass along more of the cost of health benefits to workers.
- 47 percent of employers said worker education is important to counteract passive attitudes about costs, with 38 percent favoring programs that would teach employees to act like "smart shoppers" with their physicians, asking questions about treatment alternatives and costs.
- Corporations also are likely to pressure the medical profession to cut costs.

The survey also found most workers have no incentive to hold down health care costs because they pay only the first dollar of cost under most care plans.

Health system report card

What 207 business leaders and health experts say:

- Quality of health care: 93% rate it good or superb.
- Equality of service: 57% rate it good or superb.
- Controlling costs: 89% rate it poor or worse.

Source: Prevention Magazine

USA's budget showdown begins

How the battle shapes up

Hi-tech: Job boom won't last forever

They're all advertising in USA TODAY, The Nation's Newspaper. Some of the biggest and most successful companies in the country think it's a great place to be. That's because USA TODAY's circulation is already over a million in 17 of the nation's largest cities. It has a 70/30 editorial/ad ratio that makes our ads stand out. It's bright and colorful with 4-color quality that's never been seen in newspapers before. Look into USA TODAY. You'll be a HIT like AT&T, VW, MCI, ITT. They're in USA TODAY, too.



The U.S.A. in an entirely different way.

Caramba!

Most closed-end investment funds sell at a discount from net asset value, but the Big Board's two-year-old Mexico Fund goes the other way and commands a huge premium. It sells at a dizzying 230% of net asset value.

Must be some performer, you say? Quite the contrary. It came out at 12 in 1981, dropped to 3¼ in 1982 and recently was selling at 5½. Why, then, the big premium? Nobody is certain, but some observers think a lot of naive investors are misinterpreting the numbers. They pick up the paper and



The Mexican stock exchange
North of the border is better.

see that Mexico Fund shows a 71-cent dividend for 1983, and they say, wow!—this stock pays 14%. What they don't seem to know is that the quoted dividend is for the May 1982 fiscal year. For the year ended this May 31 the dividend could fall below 45 cents. Nor do the stock's recent buyers seem to know or care that the stated net asset value, \$2.20 a share, is overstated because the fund uses the government-controlled exchange rate for the peso rather than the free market rate, more than 20% higher. Cheered by the premium, however, the fund is getting ready to offer its stockholders the right to buy as many as 10 million more shares, which would double the size of the float. Even if some shareholders are scared off by the price or by the Mexican economy and don't subscribe to the rights offering, it will sell out anyway. That's because the Mexican National Development Bank intends to buy up any unwanted shares. As a long-term call on the severely battered Mexican economy, the shares have merit. But even if the Mexican market doubled, Mexico Fund's net asset value would

probably still be below the stock's current price.—Thomas Jaffe

\$20 the easy way

When the good news began to filter out on Pan American World Airways last month (FORBES, July 4), the price of its common stock rose from \$6 to \$8. Wall Street's arbitragers did some fancy footwork with Pan Am's \$150 million of 15% convertible debentures due in 1998. At \$8, each \$1,000 bond is convertible into 181 shares of common, worth \$1,450. Yet the bonds were selling at only \$1,380. So the arbs bought bonds in big bundles and sold the stock short at \$8 a share to lock in the price. Then they could convert the bonds—which takes a week—in order to use the new shares to cover their short positions. Even after paying an interest coupon due the bondholders, the arbs would come out ahead by about \$20 per bond. That gave the arbs an annualized return of about 90%, much to their liking. But now the ploy may work out even better. Many arbs have delayed converting and are sitting with short positions. If the stock retreats, they will make a profit on the shorts, so long as they aren't forced to deliver. If they can hold out until September, they will collect their bond profit, plus \$75 per bond from the semiannual interest coupon. A lot safer way for an arbitrageur to operate than gambling on takeover.—T.J.

For value hunters only

Why pay full price for a stock portfolio when you can get one at a discount? One way to do that is to buy shares in one of the closed-end stock funds, which generally trade at a discount from the value of the securities they own. And in that category Baker, Fentress & Co. is particularly intriguing. The over-the-counter asked price of \$35 for its shares compares with a net asset value of \$44. There's another discount hidden in the portfolio itself.

The invisible discount involves Baker's 81% stake in Consolidated Tomoka Land Co., which it values on the basis of Consolidated's bid price of \$30 a share. But if Consolidated were to liquidate its 36,300 acres of Florida citrus groves, lakefront property and undeveloped acreage, it would be worth more like \$60 a share, say real estate experts. Then there is Baker's 28% stake in Oregon's Medford

Corp., valued at Medford's \$31.50 bid price, even though this plywood and cabinet firm has enough standing timber to make it worth maybe \$115 a share, according to an analysis last year by Morgan Stanley. Thus, a simultaneous liquidation of Consolidated, Medford and the rest of Baker's stocks would theoretically yield about \$56 per Baker share.

A liquidation is unlikely, and Baker's low tax basis for its holdings would mean big capital gains taxes. But Baker is no sluggish performer. Over the decade ending last December its portfolio returned a compound average of 9.3% a year, vs. 6.6% for the S&P's 500.—William Baldwin

The law's the law

Here's one of those quirks of market behavior that even its discoverer can't rightly explain. Seems once a stock trades at 91½, nine times out of ten its price will rise to 100. That's Laubscher's law, after its discoverer, veteran Paine Webber analyst Harry Laubscher. A corollary to Laubscher's law is that after these stocks reach this 91½ mark, there usually is a minor setback before the stock finally scales the summit. "Our brokers are pretty practical, show-me kinds of guys," says he. "I'm sure at first plenty of them thought all this was a bit flaky. But by now I think they've accepted that the thing actually works. If Laubscher's law holds, some good bets in this market ought to be: Northrop, Raychem, Watkins-Johnson, Monsanto, Burlington Northern and Hewlett-Packard. All have hit the magic 91½ and then retreated somewhat. So Laubscher thinks there's a good chance of a 15% or better gain in most of them. Unfortunately, his law doesn't give any clues to how long the process takes.—T.J.

Bonus baby

Perry (Bill) Esping, 48, a former IBM salesman, started First Data Resources in 1971 with \$250,000 in cash plus \$1 million or so in borrowed money. Nine years later he sold the firm to American Express for about \$80 million. His share of the proceeds? "A big chunk," says Esping. It was a nice fit for American Express because FDI processes bank credit cards. Did American Express overpay? Hardly. It is about to offer one-fourth of the company to the public for \$140 million. Figure it out. American Express gets its purchase price back, pocket \$60 million in cash and still owns 67% of First Data Resources. You

ld think Bill Esping might be
ed for selling out too soon, too
ply. But he isn't, because Ameri-
Express is cutting him in on its
it. The financial services giant is
ng Esping buy 1.12 million of
e \$20 shares for just \$1.79 each.
t will yield Esping an additional
it of \$20 million.

Why is American Express being so
erous? It's the firm's way of mak-
sure Esping doesn't quit and go
ing. He can't sell all his shares at
market value for four years, in-
ct making the deal a four-year em-
ment contract. There's also a pro-
on that, as Esping puts it, "will
ce sure we don't sit around on our
s." Unless earnings between now
June 1986 are at least 30% more
n during the 12 months just ended,
exco has the option to buy back
stock at its original \$1.79 purchase
e plus interest. That's quite an
entive for Esping to keep his nose
he grindstone.—T.J.

A financial powerhouse

aking of American Express, did
financial services company over-
for Alleghany Corp.? A cool \$1
ion worth of its stock for the assets
what is a mutual fund and insur-
e sales operation (Alleghany is par-
to Investors Diversified Services).
ut when you analyze the deal,
Amexco isn't overpaying. Alleghany
little long-term debt and sits on
ut \$475 million in cash. So Ameri-
Express is really paying a lot less
n \$1 billion. What does it get for
t? Amexco Chairman James Rob-
on III responds: "In one step, we
now in a very large sector of the
ancial services market, which we
ren't in before. IDS' unique
length is its 4,100-person sales
ce, selling insurance certificates,
huities and mutual funds." In
ort, Amexco is now a financial pow-
house: banking, traveler's checks,
earson's brokerage operation, in-
ance—and now mutual funds and
irect sales operation.

The acquisition is a pooling of in-
ests, so Amexco needn't incur a
ge goodwill cost with annual amor-
ation charges. Since the deal is a
rchase of assets, Alleghany remains
ependent as a holding company
ntrolling the biggest single block of
nexco stock. The Kirby family's
ists, owning about 43% of Allegha-
's 8.4 million shares, are Allegha-
's largest shareholders. Smart mon-
man Fred Kirby joins the Amexco
ard.—Howard Rudnitsky

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Pneumo has surprised a lot of people, but not the perspicacious Harold Geneen.

Happy landing

By Thomas Jaffe

HAROLD GENEEN is known as a master conglomerator. But if Pneumo Corp. is any example, he's a first-rate stock picker, too. Nearly four years ago Geneen and a group of investors, including Lehman Brothers partners and Baron Edmond de Rothschild's Swiss bank, began accumulating a 17% stake in this Boston-based manufacturer of aircraft landing gear and control systems. No takeover plans, said Geneen and his associates at the time. They were merely making an investment.

Pneumo hardly looked like a smooth flight. Earnings had been flat for five years, while return on equity had slumped from 23% to 13.5%. The company's secondary business, P&C Food Markets, a New England and upstate New York supermarket chain, was holding its own, but it normally brought in only 30% of income. The problem was aerospace, where cyclical production orders and startup costs can make profits erratic.

When it comes to military aircraft, control systems made by Pneumo's National Water Lift division are state of the art. But that doesn't help much whenever a particular government procurement program is winding down. As for commercial aviation, producing landing gear for the Boeing 747 was Pneumo's bread and butter. Once again the market was due to peak.

Geneen was looking ahead. Not

only did Pneumo have the contract for the controls of the General Dynamics F-16, but it also was set to supply controls and landing gear for the McDonnell Douglas F/A-18 and landing gear for the Rockwell International B-1B bomber. Meanwhile, the company planned capital spending of \$40 million on its supermarkets, with half the money earmarked to improve their Syracuse distribution center. In 1980 Pneumo also bought Carls of Rome, N.Y., a small retail drug chain. Soon Geneen's foresight paid off.



Gerard Fulham of Pneumo Corp

"These guys never needed an upturn. They were there."

Since 1980 profits at Pneumo have increased by an average of 35% annually, to \$23.6 million last year, on sales of \$1.1 billion. Share prices lagged a bit, partly because Pneumo's mix of aerospace and supermarkets baffles most analysts. By September 1982, when the company bought back

stock from its investors, those who hung on doubled their money. Geneen didn't sell: He kept his 5% shares and still is on Pneumo's board.

"Frankly, the whole period aged some," says Chairman Gerard Fulham. An accountant by training, he helped diversify Pneumo—originally called Cleveland Pneumatic—by buying P&C Food Markets in 1979. "You don't want a situation where a downturn in one business can bring the whole house down with it," says Fulham. "That's why we now have several profit centers."

At the moment that mix is working beautifully. While the recession clearly has hurt Pneumo's commercial aviation business, a more efficient fleet operation and rich long-term military programs, like the F-16 and F/A-18, are more than offsetting the pain. Investors gradually realized that Pneumo's shares responded accordingly. Its stock price has nearly tripled since September, so Geneen has more than quintupled his investment.

Analyst Philip Goldsmith of New York's Goldsmith & Harris sees a bright future, too. He expects 1983 profits of \$2.25 a share and per-share earnings for 1984 of at least \$2. "These guys never needed an economic upturn," he explains. "They were there."

If air travel continues to rebound, an impressive boost for Pneumo will get a cyclical boost as well. The firm has contracts to supply landing gear and control systems for Boeing's new 757 and 767 jets, as well as for McDonnell Douglas Super 83. Fulham thinks his company could double in size before the end of the decade.

There's an irony here, of course. In May 1981, Pneumo raised \$35.5 million through a secondary offering of 1.4 million shares. Nearly all that stock was purchased from Geneen and his associates on the cheap in previous September. In fact, the company pocketed the profits they missed out on—enough to help pay for an aerospace en-

neering acquisition that Fulham wants to make. "I know it looks like a brilliant bit of arbitrage," Pneumo chairman explains. "But I can assure you we didn't plan it that way. We just took advantage of the opportunity."

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Is there a way to identify stocks that—like Warner, TI and Mattel—are about to spring bad news on the market? No, but sometimes there are clues.

When the music stops

By Paul Bornstein

THE STOCK MARKET loves romance but hates surprise. It will pay ridiculous prices for growth prospects that are far from certain but it severely punishes a stock if the growth disappoints. Even in a wild bull market like the current one, the market has taken revenge on stocks like Texas Instruments, Mattel, Prime Computer and Warner Communications. Simply because the companies sprang unpleasant sur-

prises on the financial community.

Although these are extreme cases, they illustrate what can happen when investors are confronted with unexpected bad news. Any significant disappointment in earnings is likely to set off drastic reactions. All the more so for issues selling at hefty multiples to present earnings and short-run earnings estimates.

Once the news is out it is almost too late. Are there ways to sniff such bad tidings in advance? Earnings estimates may provide useful clues,

claims Stan Levine, vice president New York-based brokerage firm Lynch, Jones & Ryan. The Institutional Brokers Estimate System developed by Levine's firm continually collects data on over 2,400 companies from some 1,200 analysts. "Even a small change in an earnings estimate—especially a downward revision—might be a hint of future price movement," warns Levine.

Look at the Texas Instruments situation. The mean 1983 earnings estimate for the company rose from \$6.10 a share in January to \$9 in February. But from that point the estimate dropped each month. In May, a month before TI's share price collapsed, the estimate fell to \$7.97. TI's decline wasn't dramatic, but it was enough to give conservative investors a reason to worry.

More recently, the analysts have really lowered the boom. Collectively, they now project that Texas Instruments will earn \$3.16 this year, a 65% decline since February. So much hindsight.

The objective here, however, is to try to identify companies where the risk of a price decline is high. While a drop in the consensus estimate is not an infallible way of identifying a stock headed for trouble, it is a signal for investors to take a second look.

Living high and dangerously

These issues have gained at least 100% since August 1982. But investors are looking far down the line for future growth: All these stocks sell at above-market

multiples on both present earnings and 1983 and 1984 earnings estimates. But watch out. The slightest bit of bad news could send these shares into a spin.

Company/business	Price		Earnings			Price/earnings ratio			2-month change 1983 est
	% change from 8/13/82	recent	latest	1983 est	1984 est	current	1983 est	1984 est	
Bolt Beranek & Newman/engnrng svcs	383%	72½	\$1.30	\$1.44	\$2.13	56	50	34	-4.0%
TIE/communications/telecomm equip	301	71½	1.37	1.78	2.55	52	40	28	5.3
Advanced Micro-Devices/electronics	296	63¾	0.78	1.34	2.05	81	47	31	3.1
Cordis/health care equip	287	104½	1.87	2.97	5.20	56	35	20	2.8
Teradyne/electronics	262	62½	0.70	1.57	2.34	89	40	27	9.0
Ryland Group/home-building	260	60¾	2.14	3.96	6.00	28	15	10	8.2
Apple Computer/computer equipment	233	49½	1.38	1.75	2.47	36	28	20	6.1
Quotron Systems/financial info svcs	231	60	1.13	1.46	1.99	53	41	30	1.4
Varian Associates/electronics	223	59	1.84	1.97	2.55	32	30	23	3.7
Policy Mngmt Sys/computer software	218	58¾	0.96	1.19	1.59	61	49	37	1.7
Price Co/specialty retailing	216	72½	1.21	1.37	1.94	60	53	37	NA
CenCor/fincl svcs, day care ctrs	194	50	1.89	NA	NA	26	NA	NA	NA
DST Systems/computer software	192	47½	0.98	NA	NA	48	NA	NA	NA
Tellabs/telecommun equip	192	46	1.27	1.58	2.02	36	29	23	7.5
Cullinet Software/computer software	190	43½	0.81	1.07	1.40	54	41	31	1.9
HBO & Co/hospital computer svcs	178	40¼	0.69	0.97	1.27	58	41	32	-29.1
Univrsal Hlth Svcs B/health care svcs	177	54	1.83	2.34	3.11	30	23	17	1.7
Tele-Communications A/cable TV	166	39¼	0.79	0.65	0.82	50	60	48	16.1
Horn & Hardart/restaurants	163	41½	1.29	1.89	3.34	32	22	12	-5.5
Adage/computer equipment	163	47¼	1.66	2.05	3.00	28	23	16	2.5

Source: Institutional Brokers Estimate System (IBES), services of Lynch, Jones & Ryan with computer analysis from Chase Econometrics Interactive Data Corp.

the accompanying table, we ened a group of high-multiple is- that gained 100% or more since 13, 1982. To make the list, a pany had to have a current P/E of r more, double the current market l. In order to focus on stocks that ld be influenced by institutions, eliminated issues selling last Au- at less than \$13 a share. And to en out weaklings, we included y those firms that had an earnings a in the latest reported quarter pared with the same quarter in prior year.

With the cooperation of the com- ers at Los Angeles-based William eil & Co. we came up with a list 56 companies. Except for Tele- munications, all of them are ex- ted to show earnings growth in al 1983. On the basis of 1983 esti- es each of these firms is still sell-

ing at an above-market earnings mul- tiple, and the average P/E is a stellar 31. While the P/Es based on 1984 esti- mates are slightly lower (the average is 22), only one firm, Horn & Hardart, has an estimated 1984 multiple lower than the recent market multiple, hov- ering around 13.

The last column in the table shows two-month changes in mean earnings estimates for fiscal 1983. Analysts have lowered their assessment of the prospects of 17 of these 56 companies. HBO & Co., which provides hospitals with computer software, and Mary Kay Cosmetics show the sharpest two-month drops. Like nearly all these firms, they are still expected to show higher earnings in 1983. But the fact that analysts are scaling back their earlier estimates could be a warning signal. HBO & Co. is still selling at 41 times its 1983 estimate

and 32 times its 1984 estimate. In comparison, Mary Kay is selling at 19 times estimated 1984 earnings.

Now look at the bright side. Tele- Communications and Teradyne lead the list of recent earnings estimate increases. Even though analysts still expect 1983 to be a down year, Tele- Communications, the nation's largest cable TV operator, is investing heavily for future earnings growth. Teradyne, a manufacturer of electronic components, instruments for testing semiconductors, and telecommunica- tions equipment, should benefit from increased military spending and a pickup in the economy.

All the stocks on this list, of course, have pushed well ahead of the market averages because they are in fast-growing businesses. Which makes them glamorous. Which also makes them vulnerable. ■

Living high and dangerously

Company/business	Price		Earnings			Price/earnings ratio			2-month % change in 1983 est
	% change from 8/13/82	recent	latest	1983 est	1984 est	current	1983 est	1984 est	
ata General/computer equipment	160%	57½	\$1.10	\$1.71	\$3.77	52	33	15	-2.8%
verly Enterprises/health care svcs	160	40	1.38	1.65	2.06	29	24	19	-0.6
al-Mart Stores/retailing	159	75½	1.95	2.48	3.18	39	30	24	2.5
lantic Rsrch/rockt motors, comm eq	159	39¾	1.49	1.71	2.04	27	23	19	1.2
iconix/electronics	156	34½	0.28	0.78	1.38	NM	44	25	8.3
atrix Corp/health care equip	153	42¾	0.99	NA	NA	43	NA	NA	NA
ow Jones & Co/publishing	153	51½	1.46	1.68	2.00	35	31	26	1.2
SK Computer Systems/computer svcs	151	34¼	0.62	0.67	0.93	55	51	37	-1.5
ared Medic Systems/hosp comptr svcs	148	38½	0.94	1.09	1.35	41	35	28	-0.9
arion Labs/ethical drugs	148	39	0.68	0.76	1.38	57	51	28	5.6
me Inc/publishing	143	73	2.46	3.25	4.31	30	22	17	-0.3
ERA Corp/computer equip	141	35½	0.79	0.88	1.17	45	40	30	-3.3
CI Communications/telecommuns	140	48¾	1.69	2.49	3.26	29	20	15	-4.6
riceMaster Inds/hlth care, clng svc	137	43	1.01	1.19	1.47	43	36	29	0.0
tel/electronics	136	36¼	0.39	0.71	1.29	93	51	28	5.2
ys 'R' Us/specialty retailing	135	41½	1.21	1.57	2.03	34	27	21	0.9
nders Associates/aerospace	131	112½	3.84	3.99	5.14	29	28	22	3.1
ectra-Physics/precision instruments	131	34	0.03	0.56	1.87	NM	61	18	-15.2
ommunity Psych Cntrs/hlth care svcs	127	40	1.17	1.37	1.73	34	29	23	3.8
ryker/health care equipment	127	35¾	1.01	1.17	1.43	35	31	25	0.9
Systems/aerospace	127	38½	1.32	1.64	2.03	29	24	19	7.9
ary Kay Cosmetics/cosmetics	123	35½	1.28	1.50	1.91	28	24	19	-23.9
reat Lakes Chemical/chemicals	123	60½	2.31	2.86	4.11	26	21	15	0.0
ray Research/computer equip	118	52¼	1.41	1.79	2.37	37	29	22	1.1
nnicare/health care services	118	43	1.52	1.76	2.10	28	24	20	1.7
stematics Inc/computer services	116	42¾	0.87	0.92	1.27	49	46	34	1.1
enentech/bio-engineering	115	41¾	0.05	0.09	0.17	NM	NM	NM	-10.0
hich Press/printing	113	64	0.46	NA	NA	74	NA	NA	NA
nitrode/electronics	110	58½	2.22	2.61	3.29	26	22	18	-5.4
ewlett-Packard/electronics	105	91½	3.23	3.55	4.47	28	26	20	-0.3
MP/electrical equipment	105	103¾	3.34	4.31	5.66	31	24	18	5.1
aled Air/packaging & containers	104	40½	1.37	2.38	2.92	30	17	14	5.3
ouse/real estate developer	104	33¾	0.58	0.63	0.76	58	54	45	3.3
eleccredit/financial services	103	30¼	0.97	1.02	1.29	31	30	23	-7.3
arkshire Hathaway/insurance, textiles	101	915	33.24	NA	NA	28	NA	NA	NA
ectro-Biology/health care equip	100	30¾	0.56	0.60	1.44	55	51	21	-9.1

A: Not available. NM: Not meaningful. Sources: William O'Neil & Co., Institutional Brokers Estimate System (IBES), services of Lynch, Jones & Ryan with computer analysis from Chase Econometrics Interactive Data Corp.

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The "death of bonds" is no more valid a hypothesis now than the "death of equities" was several years ago.

LONG-TERM RATES: THE TREND IS DOWN

By Ben Weberman



Last January a lot of people—including me—were forecasting lower interest rates and consequently higher bond prices. Long-term Treasury bonds were then trading to yield 0.5%. Three-month bills were at 0.75%. Those yields are now 1.25% and 9%. In short, the predictions of interest-rate optimists like me haven't looked good this year. In 1983 so far, bond prices have failed to carry through on their smart 1982 rally. In fact, prices of long-term bonds are lower now than in January.

The result is that the psychology of the bond market is bearish again. Most of the players are betting that the economic recovery will be extraordinarily strong, that money supply is expanding much too rapidly and that inflation will rear its head again in 1984, if not sooner. My colleague Ashby Bladen sums up this view on p.174.)

Are the bears right this time? Is the "death of bonds" any more valid a hypothesis now than the "death of equities" was a few years ago? In other words, are we optimists going to be wrong in a permanent way or a temporary way?

Before answering these questions, let's look at what really caused the increase in the money supply that the bears are so concerned about.

And what really happened to the fixed income market.

Last April and May, income tax refunds created a temporary bulge in M1—the measure of demand deposits and currency in circulation. Before that blip had a chance to wash out, the economy started to pick up. The recovery was consumer-stimulated, which means more money in circulation; by definition, that adds to M1. Meanwhile, in December, banks and S&Ls were permitted to open money market deposit accounts. There has since been a dramatic shift of savings into MMDAs and out of money market mutual funds, as well as other exotic accounts such as repurchase agreements. In bank MMDAs and money funds, this money showed up, of course, as part of M2.

Now, however, money is flowing out of MMDAs—and M2—into the stock market, either directly or through stock funds and index futures and options and thus disappearing from the M measures. So far, in the past week or two, the official statistics have shown a shrinkage in the money supply. This in spite of the gathering strength of the economic recovery.

As for the fixed income market, it has been laboring under unusually large, but nonrecurring, demands for credit. The U.S. Treasury raised \$11.6 billion of intermediate and long-term money through the sale of 4-year, 7-year and 20-year coupon securities in late June. At the same time, banks, corporations and other entities that like to appear bigger than they are were borrowing short-term funds, some overnight, for window dressing on their June 30 financial statements. That kind of money tends to get paid back quickly, since it simply leads to the payment of unnecessary interest.

As these twin crests begin to recede, one in the money supply and the other in demand on the fixed income markets, real rates of return—that is, yields less the inflation rate—become more and more attractive. Real return has jumped to about 7% for long-term Treasury issues and to 9% for high-grade corporate bonds. That assumes inflation of 4% to 5%—realistic enough when you consider that durable goods output is still only 67% of capacity and prices of sensitive raw materials are still steady (except for oil, whose immediate future price is anybody's guess).

The fact is, the market has anticipated Fed credit-tightening, and most or all of the adjustment has already taken place. The benchmark federal funds rate covering overnight loans by banks to other banks is an excellent measure of the degree of tightness or restraint in Fed credit policy. Fed funds have been ranging between 8% and 8½% since the start of this year, with the exception of a blip in April and, more recently, a bulge in June, to 9¼%. Meanwhile, demand for personal and business loans is moderate enough so that corporations have already been able to issue large amounts of long-term bonds in spite of competition from those huge Treasury borrowings.

Let's put all this in some kind of perspective, insulated from the screaming headlines about weekly changes in money supply and interest rates. From such a perspective, it's clear to me that interest rates on long-term Treasury bonds topped out 21 months ago when yields hit 15%. The same is true of short-term rates. Three-month bills reached 16% in the fall of 1981, fell to 10% that winter before recovering to 15% in February 1982 and then descending, to 7.5% to 9%, for most of this year.

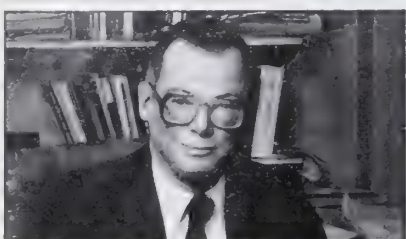
I am convinced we won't see a new eruption of inflation and rapidly rising interest rates over the next several months. Nor will the Fed do anything but pull gently, very gently, on the credit reins. So the bond market has only been resting; we have been seeing a mild downward reaction in a fundamentally bull market for bonds. The bond market bears have mistaken temporary phenomena for long-term trends. ■

Ben Weberman is economics editor of FORBES magazine

The developing inflationary boom will send interest rates through the roof.

A FAREWELL TO BONDS

By Ashby Bladen



My apologies to Ernest Hemingway. However, I cannot emphasize too strongly that inflation and the financial instability it produces are rapidly destroying the appeal of long-term, fixed-income claims like bonds and mortgages for individuals and institutions alike. And that this has ominous implications for our national standard of living because American prosperity and economic progress were built upon the ready availability of long-term credit.

Last year we botched an excellent opportunity to break the inflation, for the fourth time in 16 years. The next good opportunity will have to await another severe and painful downturn, which is not likely during the next 18 months. Meanwhile, let us look at the impact of another inflationary expansion on the investment preferences of individuals and institutions.

Individuals used to hold long bonds and mortgages mainly for the secure and stable income that sound ones provided. But by now, two decades of inflation and appalling losses of real purchasing power have largely wiped out that motive. More recently, the widening cyclical fluctuations in bond prices have tempted people to buy them when-

ever they believed that the Fed would push interest rates down to combat recession, thus presenting them with a capital gain.

Speculating on falling interest rates by going long has worked out well for people who were nimble enough to get out before the roof fell in, but eventually, economic recovery and renewed inflation gave the less nimble majority a black eye. Last year we had the granddaddy of all bond market rallies, but even so, bond and mortgage prices never got up to the cyclical *lows* of 1974. And now the eye-blackening process has started once again.

The damage that inflation and climbing interest rates are inflicting on financial institutions is more complicated to explain, but it is also more important. Institutions play a crucial role in the financing of economic progress because there is a fundamental mismatch between the demand for liquidity on the part of savers and the need for longer-term accommodation on the part of the borrowers who invest in the tools that raise our standard of living.

Savers want to be able to liquidate their financial claims and retrieve their purchasing power whenever they need to use it. But borrowers and investors in real tools want the use of it until the tools pay for themselves. In the case of things like steel mills and power dams, that can take 20 years or more.

The most important economic function of financial institutions is to bridge the gap between the requirements of savers and investors by accepting short-term deposits from one group and making long-term loans to the other. That is normally a profitable business because the interest rate on a long-term loan is usually higher than that on a short-term deposit. But if interest

rates should rise sharply enough that an institution's depositors want to withdraw their funds in order to reinvest at higher rates elsewhere, the institution would have to raise the funds to pay them off by selling its loans at a loss.

Before the inflation became serious, that risk was moderate, and institutions were willing to accept it. But today the risk is severe, and cautiously managed institutions are not willing to accept it. So they are becoming interest-rate arbitrageurs who match the maturities of their assets and liabilities, and hope to nail down a modest spread between the rates at which they borrow and those at which they lend.

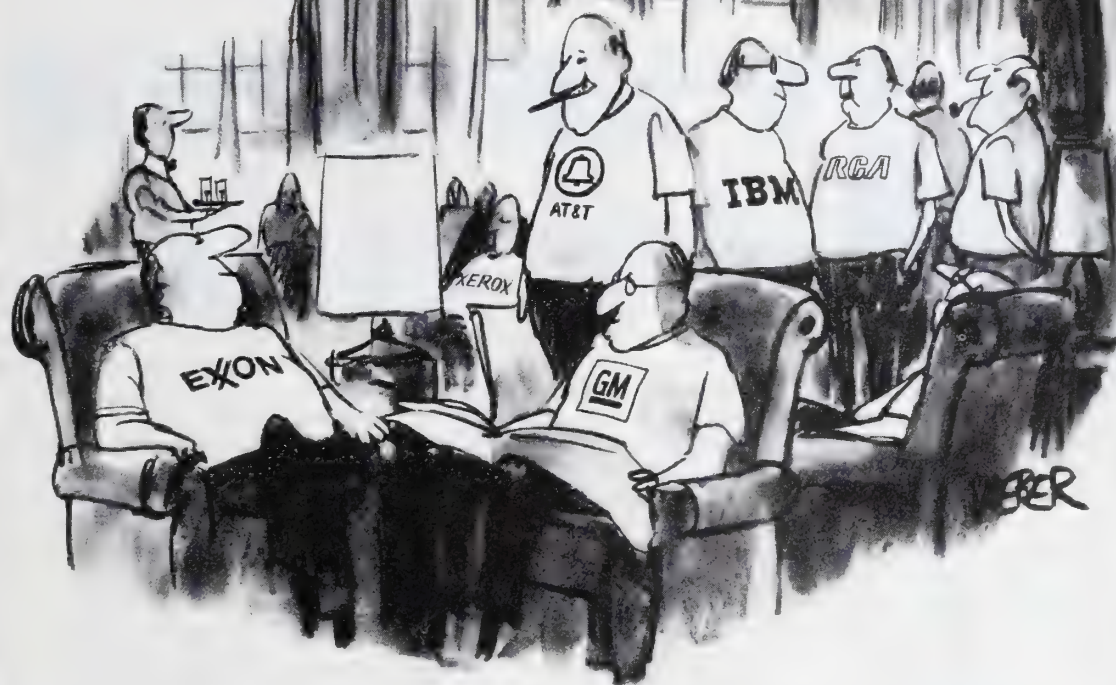
That means that investors in productive real assets are finding it increasingly difficult to get long-term loans. Instead, they have to assume that they can refinance the project when the initial loan matures. And since that is a risky assumption, cautious business people no longer invest heavily in projects with long payback periods.

True, the demise of the bond market has been announced before and it turned out to be greatly exaggerated. Recently, several institutions have been offering higher rates for deposits than they could earn on loans of equivalent maturity. They deliberately mismatched maturities and invested long in order to earn the higher rate, because they assumed that inflation and interest rates would not rise rapidly enough to saddle them with serious losses.

However, I have pointed out before that the federal government's deficit alone is creating purchasing power at a rate 6% faster than we are producing real goods and services to buy with it. The inflationary implications of that has led cautious managers like me to match maturities carefully and accept a temporary competitive disadvantage rather than expose our institutions to the risk of crippling losses. Now the optimistically managed institutions are getting a black eye once again, so next time they will think twice before going long.

At the moment, we are heading for an inflationary boom, but in the longer run American prosperity cannot be maintained unless we decisively break inflation and restore financial stability. ■

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Developing Financial Crisis.



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*The economy is stronger than expected.
Bad news for the stock market.*

GOOD IS BAD

By Ann C. Brown



Yawn. Looks like we're back to an eighths-to-quarters market, where stock prices move in a narrow range intraday and end each session little changed from the previous close. Sigh. The last 12 months will live long and pleasantly in investor memories. "The Spree of '82-'83" will be a tale oft told to any grandchild who will listen. Soaring new highs in volume, in the averages, action and excitement, at times bordering on frenzy. Big money. Fast money. Who would have believed it a year ago? A 450-point gain on the Dow? You gotta be kiddin'. Too bad the market only trades futures, not pasts. What's ahead, at least over the near term, could take some of the bloom off last summer's rose.

Among the cement sneakers keeping the market from running away are rising interest rates, as the Fed treads the fine line between too much money and too little. Mr. Volcker was catapulted back into office almost solely on his reputation as an inflation fighter and, if the Fed errs (which it seldom fails to do), it will probably be on the side of oversquelching the money supply. This will result in heightened fears of an aborted economic recovery.

It's a case of good news becoming bad news. Most current earnings es-

timates assumed an initial slow rebound in the GNP growth rate, gaining momentum as the year progressed. The earlier anticipated 4% level for the second quarter now appears to be closer to 6.5%, reviving, in those of us old enough to remember, visions of a return to the horrors of "stop-go" economics rather than the hoped-for "neogradualism." As a result, company earnings, soon to be reported, may suffer by being too good. Instead of delight with the greatly improved bottom lines, investor fright and selloff in stocks could occur. The stronger corporate profits make the economy appear, the greater the likelihood of monetary tightening.

Another contributor to investment concern is what isn't happening in Washington in the Department of Fiscal Irresponsibility. The Administration's request that the Congress mend its spending ways has been greeted with all the enthusiasm of an unfriendly corporate takeover. With the economy growing faster than previously expected, the federal deficit estimate has been slightly reduced, thanks to increased tax revenue. Paradoxically, this very strength will hasten the clash between the private and public sectors for funds. That could cause interest rates to rise and, sooner or later, weaken stock prices.

Finally, during the next few months, fears of what the other fellow will do once he, she or the institutional "they" go long-term on their capital gains should help to keep unbridled buying under control. My guess is that there will be surprisingly little selling motivated purely by the desire to lock up profits. Investors are renowned for their apathy, their attachment to winning stocks and their aversion to paying taxes on any terms, long or

short. The institutions are unlikely to bail out unless there is clearly something more attractive to bail into because their size precludes jumping around. And, if interest rates increase as I expect, they won't rise high enough to tempt big players away from their equity positions, particularly when most already have too much cash on hand.

Although I'm still wearing a yellow stripe down my back, I'm hard at work on my list of potential new buys, which I may use around the time the leaves turn red and gold. Of interest are several insurance companies, which, for the most part, have sat out the rally. *Aetna Life & Casualty* (39) has traded in its present range for about three years, having been hurt by the recession and high interest rates. While there is still some question about earnings from group health insurance, Aetna stands to benefit from a cyclical recovery in property and casualty income, pension earnings and diversified business income. Earnings of \$4.90 per share for 1983 will be down from the \$5.80 per share reported in 1982. However, early estimates for 1984 see Aetna's earnings around \$7.05 per share.

General Re Corp. (61) has been as high as 72 this year. Once the current cutthroat, competitive environment calms down, it should be able to widen its impressive annual earnings growth rate to 20% or so. Earnings for 1983 are estimated at \$4.95 per share, with \$5.80 possible for 1984. The company has split the stock in three of the last four years and might do so again this year.

Two situations that have appeal for entirely different reasons are *Farmers Group* (39) and *CIGNA* (47). Farmers Group tumbled a too-quick 10 points after reporting only mildly disappointing first-quarter earnings. For 1983 earnings-per-share estimates remain around \$4 to \$4.10. In 1984, \$4.65 or so looks possible.

CIGNA is last year's combo of Connecticut General Insurance Co. and INA Corp. Here the opportunity for earnings increases exists as the new company benefits from economies of scale and savings from the merger and from personnel reductions. Earnings for this year are estimated at \$6.60 to \$6.75 per share vs. \$6.38. Next year, preliminary guess-timates are for \$9 per share. ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio management firm of A.C. Brown & Associates

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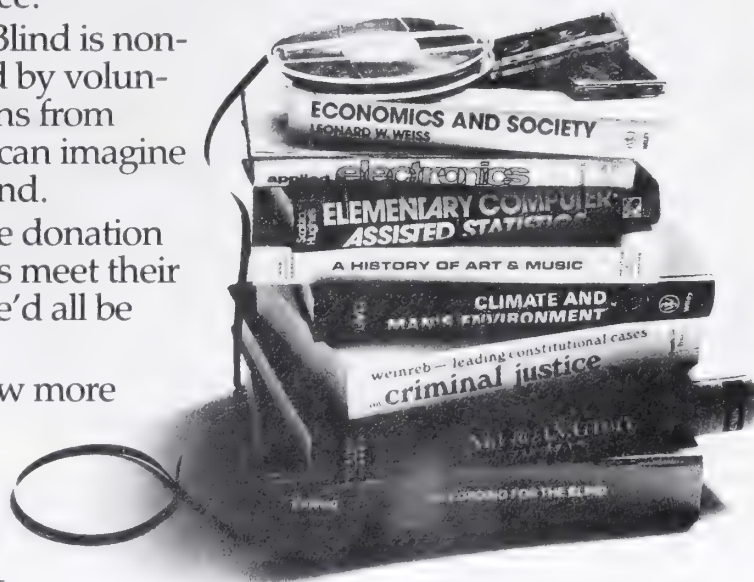
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THE EARLY BIRDS

By **Srully Blotnick**



Not everyone waited for the market to come roaring out of the starting blocks last August before doing his buying. Some investors were active on the buy side throughout June, July and early August. What are the views of these smart—or lucky—investors now?

"I'm getting ready to sell," replied Carl, who works in the production division of a large food company. His response echoed that of the majority of investors in his position.

"How come?" I inquired. "I thought you were still bullish."

"I am," he responded, before I had barely finished my sentence, "but I'm afraid of all the other sellers that might be thinking the same way I am. If they act first, there won't be anything left for me." Better get out too soon, he reasons, than be crushed in the rush for the door.

Investors have learned a painful but important lesson in recent months, thanks to what they have seen happen to the stock of Warner Communications, Baldwin-United and Texas Instruments. The abrupt downside movement in the price of these three issues, particularly since the market had a strong upside bias at the time, shook them.

*Dr. Srully Blotnick is a research psychologist and author of *Getting Rich Your Own Way and Winning: The Psychology of Successful Investing*.*

Previously, they were of the belief that it took many sellers acting simultaneously to push a stock's price down. In fact, if it declined by one-third, they were convinced that one-third of the shareholders had sold. Now, their view has changed.

"I'll bet almost everybody got hurt in each of those disasters," Carl commented. He correctly suspects that few investors got out in time. With increased sophistication has come fear, a fear of the mob—in this case, a rather small mob. It won't take many sellers acting at once, Carl now believes, to drive down substantially the price of the stocks on which he has a sizable profit that will, at last, soon qualify for capital gains treatment. This makes the Carls of the investment world jumpy.

The uneasiness varies quite a bit from investor to investor, depending primarily on the stocks they now own. Those who bought blue chip issues are the most inclined now to sell. Carl's one of them.

At the other end of the spectrum are investors who bought Amex and o-t-c shares prior to the rally and have kept on buying them during it. Odd as it may sound at first, they are the least inclined to dispose of their holdings now. Their fat paper profits have made them euphoric.

Nancy is an example. Taking even \$1 of profit now to avoid being trampled at the doorway is far from her mind. "Why should I sell?" replied Nancy, an M.B.A. at a computer company. "We have nowhere to go but up. Next year is an election year, remember?"

Ted, who is one of three partners in a six-year-old (\$4 million in 1982 sales) manufacturing concern, agrees: "There's just too much money sitting on the sidelines waiting to get in. No pullback can possi-

bly last very long. This is the only market I've ever played that virtually comes with a written, money back guarantee."

Both Ted and Nancy—unlike Carl—are continuing to use whatever surplus income and spare cash they have to buy additional shares in the small companies and low-priced stocks they tend to favor, though they do try to do their buying only on pullbacks. Since they bought shares in these same companies at much lower prices—for instance, Dome Petroleum at 2 and a fraction—they have unwittingly been "averaging up" for many months. That is, the average cost of the shares they now hold has been rising as later, more expensive shares have been added to the ones they bought earlier.

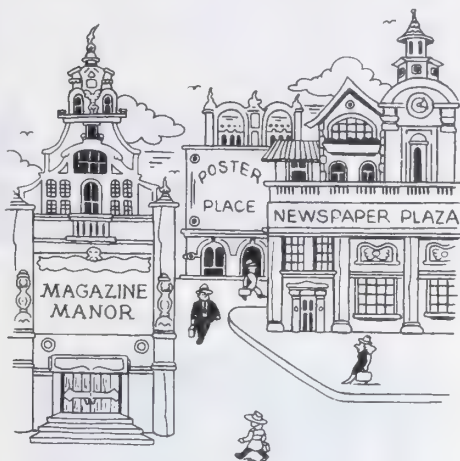
That doesn't bother them in the least. As their comments make clear, they are convinced that the U.S. has finally emerged from the economic doldrums in which it has found itself for a decade. In their opinion, every major problem that has plagued us year after year has now become either manageable or a thing of the past. In Ted's words, "OPEC caused the trouble in the first place, and now isn't anything to worry about. The worst is behind us. Inflation and interest rates will stay low, of that much I'm certain." However, they don't expect large companies to benefit in this new economic era to nearly the extent that smaller ones will.

It's quite a reversal: Blue chip owners nervous and jumpy; hot stock players professing equanimity. It strikes me as incredibly naive for people like Ted and Nancy to think that the stocks of large companies could suffer a major setback while small companies and startups remain exempt. Yet, both Nancy and Ted are convinced that will happen. I doubt it. Although the attitude is fueling much of the buying in Amex and o-t-c stocks, it overlooks the fact that the most important customers of the small companies in which they are interested are large companies, not the public directly. As we saw on the upside, so we will see on the down, when and if it comes: They all go together when they go. My feeling is that Carl is right this time; Ted and Nancy may be in for a shock. ■

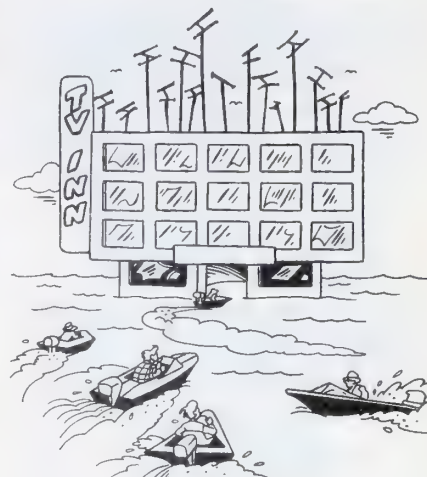
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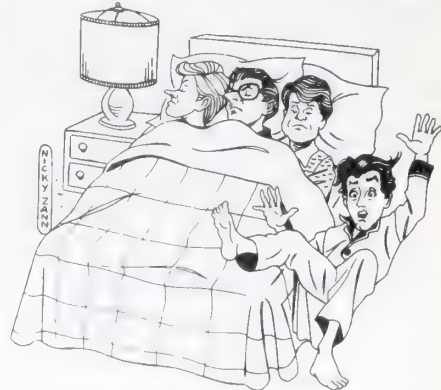
5. So TV Inn did the only thing it could do—it began putting two people in one room. When its guests didn't object too much it began putting three and four and more, including hitch hikers.



For a while, at rising rates, the guests began complaining. With so many people in a room, nobody wanted attention, nobody could remember who called. So many of the guests, feeling annoyed, went back to the established places.



7. "After all," they said, "when you pay for attention, you ought to get it. And with so many people in one room, how can you?"



8. MORAL: The quickest way to fall out of bed is to sleep with too many bedfellows.

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Property Strategies

Will the ruggedly individualistic real estate developer go the way of mom-and-pop stores? Many will, but not all.

LIFE AFTER MERRILL LYNCH

By Stephen E. Roulac



He is obviously troubled. "I've built a successful development company. Over 20 years, I've done over 1 million feet of industrial space, nearly half as much office space, plus some apartments and shopping centers.

"In the beginning, things pretty much financed themselves. I could organize my construction so that loan proceeds paid the cost of putting up the building. Then—when more capital was required—the big life insurance companies agreed to advance all the money for a share of the equity. Sure, I hated to give up any of my action, but half of a bigger deal is better than all of a much smaller one.

"Not long ago, though, financing got lots harder. Instead of 50%, the life companies wanted 70%, even 80%. When I put a pencil to some of their proposals, my upside looked a lot like a salary—even though I still had all the pressure and the risk of an equity position. Lately, I've pulled back."

My client, a successful developer from Ohio, pauses, thinking hard. He already has a net worth of perhaps \$15 million, but he wants to do better. His goal is to create a major company, one that will provide op-

portunities for his employees, particularly his two sons.

He and I go on to talk about things like organizational structures and compensation arrangements, the advantages and disadvantages of one geographic market over another and whether his emphasis should be on industrial or office space. Suddenly the client blurts out what's really bothering him: "Tell me, is there a future for developers like me? Or are we limited to being construction managers for Merrill Lynch?"

This isn't an isolated question. These days plenty of developers have been forced out of business. Others are pursuing "personal interests." And many of those still active are more confused than ever.

No wonder. Changes in financial services and the transformation of real estate financing relationships are making obsolete traditional ways of doing business, longtime relationships and proven formulas—all part of an inexorable move to one-stop financial shopping.

Rough-and-tumble builders are in the middle of a transformation in the way they do business that few of them understand. The challenge for today's developer is to control the terms of his money access—something that was a fairly passive process in the past. A developer, for example, used to turn over the responsibility for seeking project financing to a mortgage banker. He, in turn, would call up one of a handful of insurance companies with whom he had a "correspondent" relationship.

It doesn't work that way any more. Big conglomerates, often relatively new to real estate, provide a full range of financing services. Outfits like American Express, General Electric and Sears. Tha

Stephen E. Roulac is chairman of National Management Advisory Services, a division of Kenneth Leventhal & Co., a national CPA and consulting firm specializing in real estate and financial services.

MONEY & INVESTMENTS

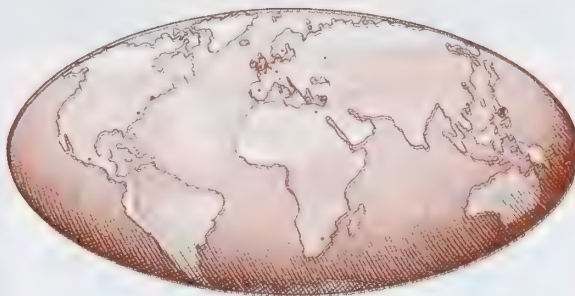
ans they can also have lots more
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d-thinking developers are taking
offensive. They are organizing
arities companies to offer real
ite limited partnerships. They
creating captive mortgage bank-
and financing facilities. Some
even acquiring their own depos-
ases.

ere's one interesting example:
w California laws have allowed
the creation of scores of S&Ls,
many have been started by
estate developers. This pro-
es an opportunity to control
terms of project finance, rather
n accepting whatever terms
e faraway conglomerate offers.
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rates than corporations. The
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and lately, well-run S&Ls
e been selling at a healthy pre-
m above book value.

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this. The fiduciary financing
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riar style of developers. And the
repreneurial real estate business
efits from the fiduciary's stabil-
The key is to combine trust and
urces with creativity and initia-
Those who can see the oppor-
ity here and have the manage-
skills necessary to realize it
profit in this new environment.
Is there a future for the small
vidual real estate developer be-
d being a contract construction
nager for Merrill Lynch?" For the
sive majority, the answer is: No.
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183

After two years of surplus sugar production, there now appears to be a modest shortfall. It's nothing to build a rally on.

A SWEET TREAT FOR THE BEARS

By Stanley W. Angrist



Most commodity traders like sugar as a speculative vehicle. It does not take a lot of searching to find out why. In 1974 sugar made a spectacular move from 12 cents per pound to over 66 cents in a few months, allowing some iron-nerved speculators to realize over \$50,000 profit per contract. In 1979 it displayed again its taste for dollar fireworks, as it moved in a year from a base of 8 cents to 45 cents per pound.

Recently, sugar has started to move up again. After sleeping between 6 cents and 8 cents per pound for almost a year, it doubled in price, reaching 12 cents per pound. Fundamentalists should be puzzled by this move. Here's why.

The world produced 100.5 million metric tons of sugar in the 1981-82 crop year, yielding a huge 8.9 million metric ton surplus. The 1982-83 season produced another 4.3 million ton surplus. It is interesting to note, however, that these huge excesses of sugar did not stop prices from doubling when a potential deficit of 1 million to 2 million metric tons was forecast for the 1983-84 crop year. This shortfall can easily be supplied by the European Economic Community or India, which hold excess stock. So why did the price double?

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets

The market simply is reflecting the short-term dislocations that can occur in a transitional stage as sugar consumers locate low-cost sugar stocks from which to fill their needs. These fundamentals bring out the bear in me. I think a bear spread of long May 1984/short October 1983 sugar makes some sense. Over the years the spread has had a tendency to work fairly consistently from early summer to mid-September (see table). One of the factors encouraging me in this trade is the fact that October has been unable to command a premium over May, in spite of sugar's rapid price rise.

The margin per spread is \$750 and the round-turn commission should be about \$115. I would enter the spread only if May is at no more than 125 points premium to October, risk no more than 50 points (\$562 per spread) from the entry point and look for the spread to widen at least 75 points (\$843 per spread) from the entry point.

You should be aware that from July 1 on there is no price limit on

A sweet spread

Over the past 15 years October sugar has shown a tendency to lose relative to May from early summer until mid-September. One should also note that, in 11 years out of the past 15, October has sunk to a discount relative to May by the time the spread is usually lifted. The data below are the average weekly differences in points, obtained by subtracting October from May. Each point is worth \$11.25. In 1974 sugar experienced one of the greatest price rallies ever in the commodity market, rising to 66 cents per pound. For those playing this bear spread, it was a disaster.

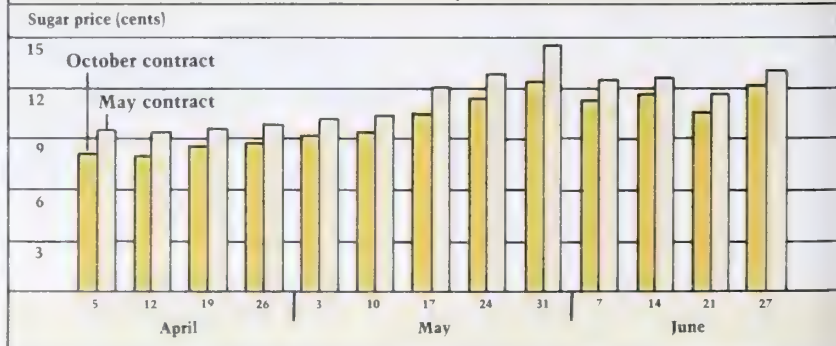
Calendar year	Week ended June 17	Week ended Sept 16	Potential gain or loss
1968	41	59	18
1969	-2	-21	(19)
1970	2	0	(2)
1971	12	61	49
1972	-21	59	80
1973	-67	-58	9
1974	-430	-623	(193)
1975	-41	-77	(36)
1976	20	124	104
1977	46	158	112
1978	97	80	(17)
1979	100	127	27
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1981	58	150	92
1982	153	159	6

Source: Shearson American Express

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Some observers of the sugar market think that a sustained rally in sugar would move the October contract to a premium over the May. It has not happened so far. Could this be a trap to catch unsuspecting sugar bulls?



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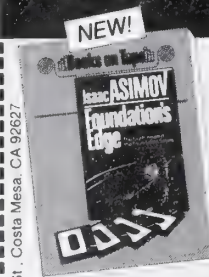
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Write or call **PAIRIE EDGE** P.O. Box 8501 Department FR Rapid City, South Dakota 57701 Area Code (605) 341-3620

After two years of surplus sugar production, there now appears to be a modest shortfall. It's nothing to build a rally on.

A SWEET TREAT FOR THE BEARS

By Stanley W. Angrist



Most commodity traders like sugar as a speculative vehicle. It does not take a lot of searching to find out why. In 1974 sugar made a spectacular move from 12 cents per pound to over 66 cents in a few months, allowing some iron-nerved speculators to realize over \$50,000 profit per contract. In 1979 it displayed again its taste for dollar fireworks, as it moved in a year from a base of 8 cents to 45 cents per pound.

Recently, sugar has started to move up again. After sleeping between 6 cents and 8 cents per pound for almost a year, it doubled in price, reaching 12 cents per pound. Fundamentalists should be puzzled by this move. Here's why.

The world produced 100.5 million metric tons of sugar in the 1981-82 crop year, yielding a huge 8.9 million metric ton surplus. The 1982-83 season produced another 4.3 million ton surplus. It is interesting to note, however, that these huge excesses of sugar did not stop prices from doubling when a potential deficit of 1 million to 2 million metric tons was forecast for the 1983-84 crop year. This shortfall can easily be supplied by the European Economic Community or India, which hold excess stock. So why did the price double?

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

The market simply is reflecting the short-term dislocations that can occur in a transitional stage as sugar consumers locate low-cost sugar stocks from which to fill their needs. These fundamentals bring out the bear in me. I think a bear spread of long May 1984/short October 1983 sugar makes some sense. Over the years the spread has had a tendency to work fairly consistently from early summer to mid-September (see table). One of the factors encouraging me in this trade is the fact that October has been unable to command a premium over May, in spite of sugar's rapid price rise.

The margin per spread is \$750 and the round-turn commission should be about \$115. I would enter the spread only if May is at no more than 125 points premium to October, risk no more than 50 points (\$562 per spread) from the entry point and look for the spread to widen at least 75 points (\$843 per spread) from the entry point.

You should be aware that from July 1 on there is no price limit on

A sweet spread

Over the past 15 years October sugar has shown a tendency to lose relative to May from early summer until mid-September. One should also note that, in 11 years out of the past 15, October has sunk to a discount relative to May by the time the spread is usually lifted. The data below are the average weekly differences in points, obtained by subtracting October from May. Each point is worth \$11.25. In 1974 sugar experienced one of the greatest price rallies ever in the commodity market, rising to 66 cents per pound. For those playing this bear spread, it was a disaster.

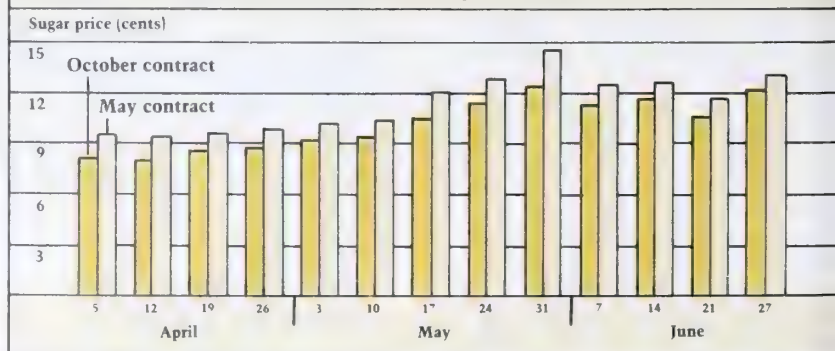
Calendar year	Week ended June 17	Week ended Sept 16	Potential gain or loss
1968	41	59	18
1969	-2	-21	(19)
1970	2	0	(2)
1971	12	61	49
1972	-21	59	80
1973	-67	-58	9
1974	-430	-623	(193)
1975	-41	-77	(36)
1976	20	124	104
1977	46	158	112
1978	97	80	(17)
1979	100	127	27
1980	80	104	24
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Source: Shearson American Express

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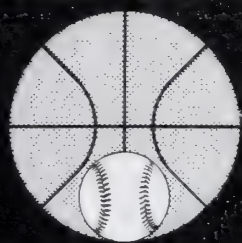
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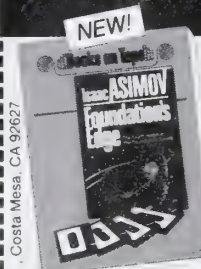
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Flashbacks

Edited by Dero A. Saunders

"The more things change..."
Items from past issues of FORBES

Sixty years ago in FORBES

(from the issue of August 4, 1923)



General Motors President Alfred Sloan

The automotive industry begins a new selling season Aug. 1 with a record of sales behind it exceeding the total of any 12 months in history. Never has the industry guessed correctly public demand as to the number of cars required, the kind of cars wanted, or just when they would be wanted. . . . If the kinds of models of cars that were wanted could have been delivered in volume when they were wanted, it is safe to say that half as many more cars could have been marketed.

"Especially is this true of cars with closed bodies, for the percentage of closed cars sold is increasing beyond all belief. The closed car is already the year-round car, and it won't be long before we will mean a closed car when we refer to an automobile—not an open touring car as we have meant in the past."—General Motors President Alfred P. Sloan

A revival of mining unparalleled since the days of the California gold rush of '49 is being experienced in Idaho, Nevada and Utah at the present time, according to Harry R. Hawley, a son of former Governor James H. Hawley of Idaho. In the past two years rapid strides have been made toward the reestablishment of prewar-time prosperity. Everywhere the old "Ghost Towns" are coming to life. Roads are being constructed, deserted

mines reopened, and the entire country seems to have taken a new lease on life. Idaho City, which in 1880 had a population of 25,000, two years ago had 25 white men and 25 Chinese. Today it is building up again.' "

"The temporary injunction obtained Oct. 5 last by Attorney General Daugherty, restraining striking railway shopmen from interfering with interstate commerce, was made permanent by a decision by U.S. District Judge Wilkerson. Strikes and strikers received another blow when the U.S. Court of Appeals held that erstwhile shopmen and their union leaders who were cited for contempt in District Court for violation of the Daugherty temporary injunction may not benefit by a jury trial. The ruling was based on the premise that the men were engaged in an unlawful strike."

Fifty years ago

(August 1, 1933)

"Eugene Meyer's purchase of the Washington Post (for \$825,000) caused astonishment, especially as it was steadily incurring very heavy deficits. I think I know the real explanation: Before their marriage, his wife was on the editorial staff of the New York Sun and has always maintained intense interest in affairs. She is vice president of the paper, and doubtless will become a potent influence in shaping its destinies."

—B.C. Forbes

"A bus company in northern New Jersey has a small portable machine which cuts new grooves in nonskid

tires when the original tread has become worn. The tire does not have to be removed from the bus for the operation."

"Expect early resumption of installment buying. It probably will attain very broad proportions. Why? For over three years this business has been diminishing. Practically all boom-period commitments have been closed out one way or another. For the last two or three years millions of families and individuals have been exercising self-denial. Many possessing savings have been afraid to draw on them except for the sheerest necessities. And, of course, other millions of consumers have been without purchasing power.

"Now that jobs are increasing, now that wages are being raised, now that faith in the outlook is reviving, resuscitation of buying on easy-payment terms will be entirely logical."

Twenty-five years ago

(August 1, 1958)

"As copper soared to a lofty price of 48.1 cents a pound in 1956, producers scrambled to mine all the red metal they could. But though copper is probably the world's most versatile metal, it is also one of its most cyclical. When buying by electrical equipment, auto, housing and other industrial customers turned down, the producers were caught short [and] were not particularly quick to cut back output. The result was eight successive slashes, which brought copper down to a lackluster 25 cents a pound."



Phelps Dodge copper reduction plant in Arizona

The general remedy of those
who are uneasy without knowing
the cause is change of place.

SAMUEL JOHNSON

There is a pleasure in the
pathless woods; there is a
rapture in the lonely shore,
there is society, where naught
intrudes, by the deep sea,
and music in its roar.

BYRON

I have no enthusiasm for nature
which the slightest chill
will not instantly destroy.

GEORGE SAND

The preservation of health
is a duty. Few men seem
conscious that there is
such a thing as physical
morality.

HERBERT SPENCER

The best cure for an
off day is a day off.

FRANK TYGER

No great work has ever
been produced except after
a long interval of still
and musing meditation.

WALTER BAGEHOT

It's leisure hours, happily
used, that have often opened
a new world to many a person.

GEORGE M. ADAMS

You have two types of energy.
One is physical, the other is
mental and spiritual. The latter
is by far the more important,
for from your subconscious mind
you can draw vast power and
strength in time of need.

CLEMENT STONE

Exercise is the chief
source of improvement
in our faculties.

HUGH BLAIR

Thoughts

on the Business of Life

*The right kind of recreation
is almost as essential to
success as the right kind of
education. Books, walks,
music, plays, athletics,
automobiling, traveling,
gardening, conversation—
each in its proper place
can supply ideal recreation.
Recreation should mean
renewing one's vital forces,
getting a fresh outlook and
a fresh hold on life, imbibing
fresh knowledge and refilling
the wellsprings of joy*

B.C. FORBES

Do men like to fish or
do they just like to get
away from it all?

WILLIAM FEATHER

There's lots of people in this
world who spend so much time
watching their health that
they haven't time to enjoy it.

JOSH BILLINGS

The sun does not shine for
a few trees and flowers, but
for the wide world's joy.

HENRY WARD BEECHER

I would feel more optimistic
about a bright future for man
if he spent less time proving
he can outwit nature and more
time tasting her sweetness
and respecting her seniority.

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My theory is to enjoy life,
but the practice is against it.

CHARLES LAMB

Preposterous ass, that never
read so far to know the cause
of why music was ordained;
was it not to refresh the mind
of man after his studies or
his usual pain?

SHAKESPEARE

A pleasure is none the less
a pleasure because it does
not last forever.

W. SOMERSET MAUGHAM

The quality of life is more
important than life itself.

ALEXIS CARREL

To live is the rarest thing
in the world. Most people
exist, that is all.

OSCAR WILDE

A Text . . .

Come ye yourselves apart
into a desert place, and
rest a while.

MARK 6:31

Sent in by Theodore J. Eckberg, Sherman
Oaks, Calif. What's your favorite text? *The
Forbes Scrapbook of Thoughts on the Busi-
ness of Life* is presented to senders of texts
used.

The true pleasures are almost
innumerable. Relations and
friends, conversation, books,
music, poetry, art, exercise
and rest, the beauty and variety
of nature are but a few of them.

JOHN LUBBOCK

I would not exchange my
leisure hours for all the
wealth in the world.

MIRABEAU

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August 15, 1983

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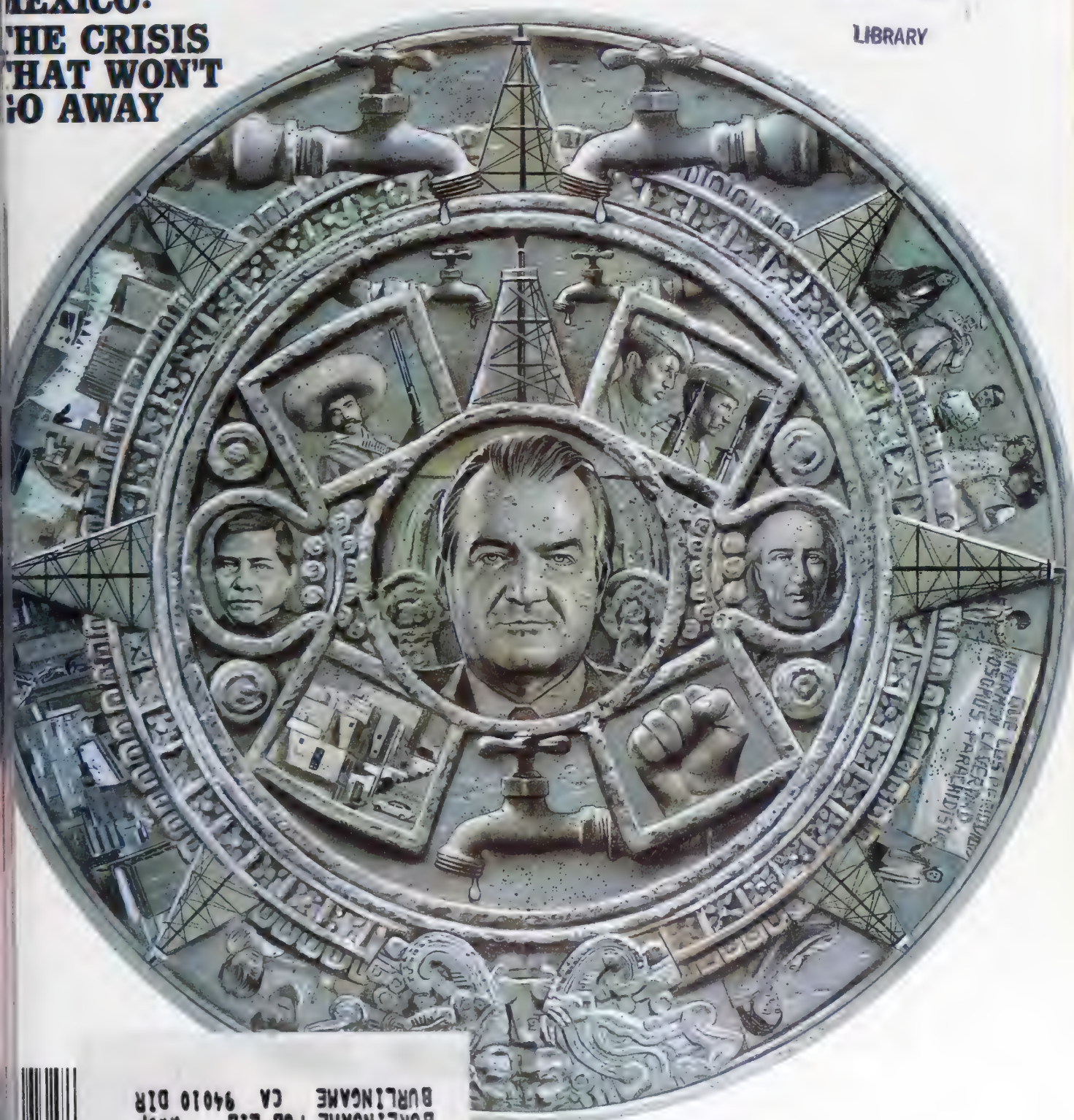
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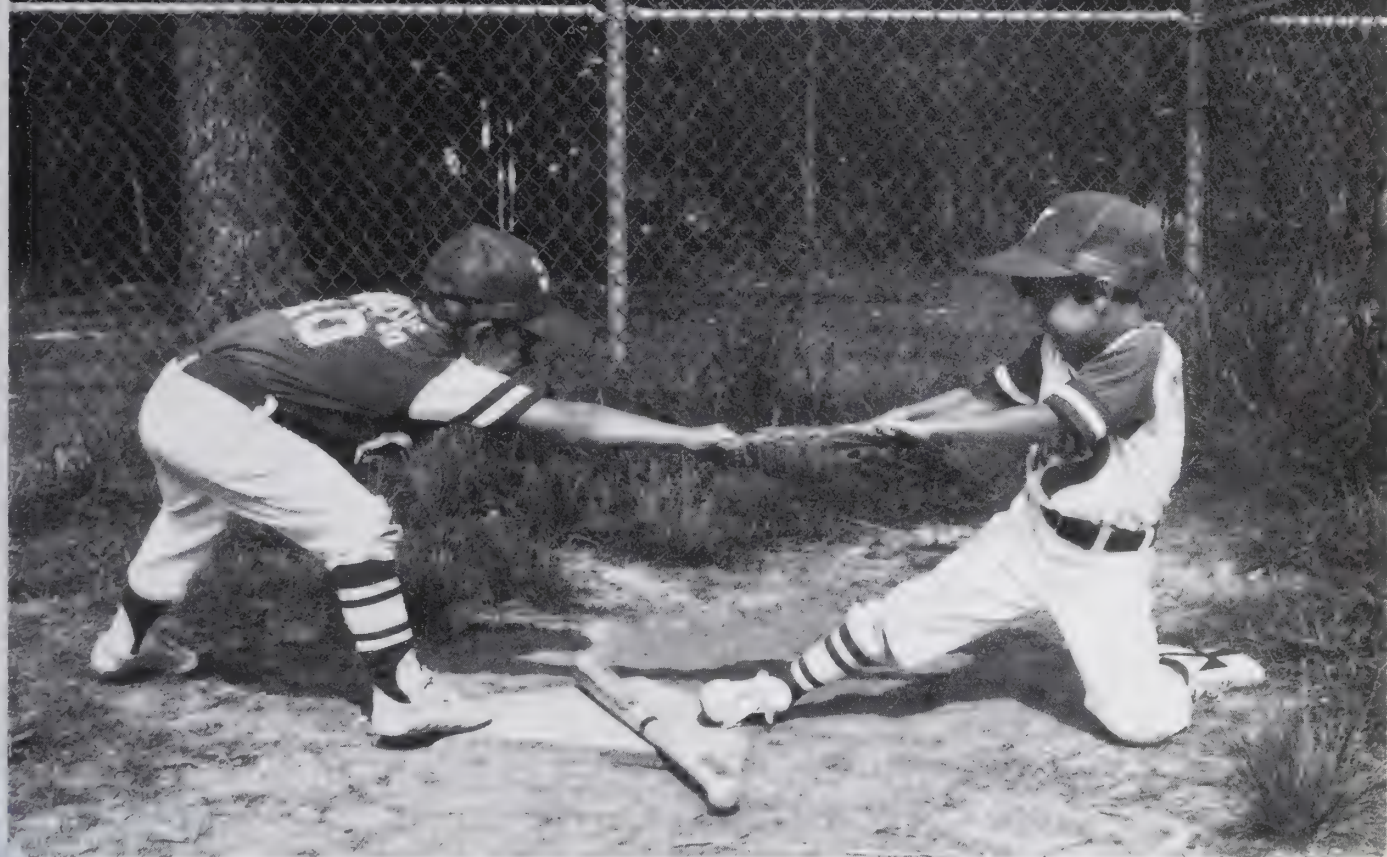
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be delivered by
a computer?
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Telemail can be especially useful to companies that want to keep in touch with salesmen, since portable computer terminals are available that the salesmen can take with them when traveling.

It's all pretty amazing, isn't it? Especially when you stop and think that only around a hundred years ago we were using pony express.

GTE

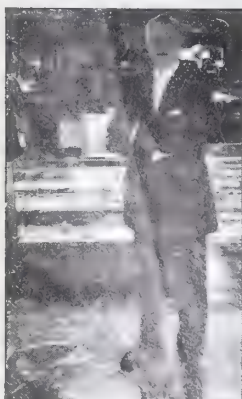
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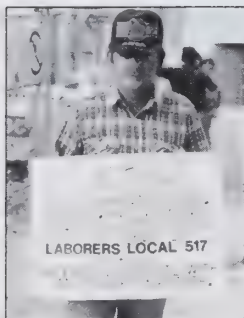
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Photos:

6, Norman Gall; 10, Bettmann Archive; 11, Culver Pictures; 12, Wide World Photos; 18, Liane Enkelis; 30, 31, Alan Dodds Frank; 32, Herman Kokojan/Black Star; 33, 35, 69, 90 bottom, Jim McHugh; 34, Bruce McAllister/Liaison; 40, Hank Morgan; 43, Ben Weaver, Camera 5; 47, Joe Traver/Liaison; 50, Wm. Franklin McMahon; 54, Image Bank; 55, Ray Fisher; 58, 59, 116, Michael Abramson; 63, Peter Calvin/Camera 5; 64, Christopher Harris; 82, Gordon Baer/Black Star; 88, Terri Parke/Liaison; 89 top, 92, Bill Kelly; 89 bottom, Gerald Holly/Black Star; 90 top, 100, Jim Pozarik; 94, 95 top right and bottom, 96, Cynthia Matthews; 95 top left, Guy Gillette/Photo Researchers; 95 middle, Richard Howard/Black Star

Illustrations:

56, 85, 111, Chas. B. Slackman; 71-75, 78, 79, Alan Reingold; 84, Tim Lewis; 98, Phil Huling; 117, Peter Kuper

Cover Illustration: Alan Reingold

Forbes (ISSN 0015 6914) is published biweekly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription \$36 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011. Copyright © 1983 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

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The road to Mexico

The U.S. Navy is on the move in the Caribbean and the newscasts are full of Nicaragua and El Salvador. Behind this lurks the reality of Mexico. Strategically, Central America is vital chiefly because it is the road to Mexico, whose fate and that of the U.S. are inextricably and unavoidably inter-



Waiting for de la Madrid

twined. So, what's going on in Mexico? Its dramatic economic growth has degenerated into a vicious stagflation, and not a few Mexicans are alarmed by the parallels they see between the troubles facing the elected government of President Miguel de la Madrid and those that collapsed the Porfirio Díaz dictatorship more than 70 years ago. Then Mexico's most pressing problems were economic: oil, trade, foreign debt, an insufficiency of jobs—and drought. These same problems face de la Madrid. Will history repeat in bloodshed and hunger, with dire consequences for both Mexico and the U.S.? **FORBES** dispatched Contributing Editor Norman Gall. His report, including a lively interview conducted in Spanish with the president, starts on page 70.

How \$675 became \$7 million

Speaking of historical parallels, Assistant Managing Editor Paul Sturm searched for a precedent to the forthcoming breakup of AT&T. He found a rough one in the old Standard Oil Trust. On May 15, 1911 the Supreme Court ruled that John D. Rockefeller's empire must be broken up. This decision set off a chain of events that made a lot of brokers rich and also set off a beneficial explosion of business initiative and competition. The resultant boom in stock trading led Teddy Roosevelt, ex-President by then, to remark that Wall Street owed a great deal to the Supreme Court. A profitable arbitrage business sprang up and lasted for years. But the big winners from the Standard Oil breakup were investors who simply held on to the pieces of paper they received. Before the breakup, a share in the Trust fetched about \$675 on the New York Stock Exchange. If held until 1983 the major stocks spun off from that single piece of paper would have a market value of more than \$5 million. The lesser spinoffs would probably add a couple million more. Even for a 70-year wait that isn't bad: \$675 into, say, \$7 million. (For those numbers we are indebted to R.M. Smythe & Co., which did the complicated arithmetic for us.)

Moral? Could it be that the wisest thing for most investors is to hold all the pieces of AT&T paper and will them to grandchildren? The communications business isn't as young in 1983 as the oil business was in 1911, but it has only scratched the surface of its possibilities. For more, see Richard Phalon's "A fund only a mother could love?" on page 117.

For the universities: a "C" in Investing 101

Speaking of stocks, did your portfolio keep up with the popular averages—up 50% and more in the past year? If not, you had distinguished company: Most of our college and university endowment funds, in spite of the economic and financial brains available to them, generally underperformed the market. Story begins on page 46.

James W. Michaels
Editor

If your health care plan isn't generating income, it's not healthy.



Self-insurance may be the healthiest approach to funding health and welfare plans.

Properly set up, it actually generates income that can lower the expense of funding.

It requires a special trust. Astute short term asset management. And specialists who know and understand the intricacies of self-insurance plans, and can prevent complications.

The concept is that no funds should be permitted sick-leave. Either they pay claims. Or earn interest.

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When cash flow is healthy, you may pre-pay the trust.

When cash flow is strained, you can recover by reducing your contributions into the plan.

The funds you put in your plan are working for you. So, instead of a chronic outflow of cash, you get something else.

A nice recovery.

Follow our line of thinking...



Buy high.

Sell low.

And come out ahead.

Interest rates are apt to move in a fickle manner. Catching you off guard.

But astute money managers cover themselves. With futures contracts on financial instruments.

The principle is the same as hedging commodities. Except you *buy* contracts when you think interest rates will be going down. And *sell* to cover rising rates.

Futures can help lock in the interest cost of a loan or the yield on an investment.

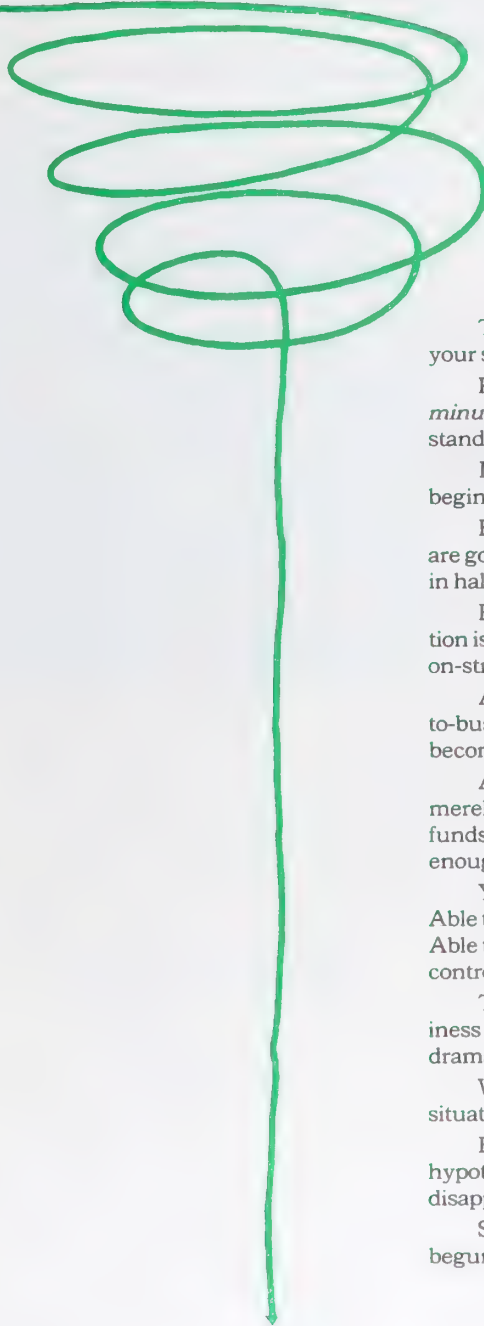
The end result of financial futures may be soothing to the corporate finances.

But the process of getting there can be wracking to the nerves.

Financial futures require constant monitoring. Intricate computer models. And advisors, like ours, who, even amidst wild interest rate gyrations, always seem to know one thing.

Which way is really up.

What will you do when "float" goes down the drain?



Time will no longer be on your side.

Payment terms of "2%/10 minutes" may become the standard.

It's not far off. It's already beginning.

Right now, experiments are going on to cut float time in half.

Electronic check collection is starting to dribble on-stream.

And electronic business-to-business payments are becoming more widespread.

A rigid program that merely reports where your funds are simply won't be enough.

You'll need a fluid system. Able to meet funding needs. Able to keep borrowing under control.

The way you do business will have to change dramatically.

We're staying on top of the situation.

Because it's no longer hypothetical that float could disappear.

Somebody has already begun to pull the plug.



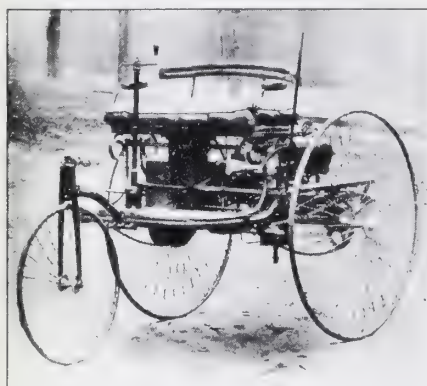
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Three-wheelers, again

The three-wheeled car is making a comeback, beginning, of course, in California. Trihawk, Inc. of Dana Point and Badsey Bullet, U.S.A., based in Santa Ana, have been marketing "high-performance" three-wheelers at \$15,000 and \$16,900, respectively, for the last several months. Now Zoe Motors, Inc. of Los Angeles is coming in. Its three-wheeled Zoe Zipper will cost \$3,000 to \$3,700 and get over 100 miles to the gallon, according to Dan Levitan, Zoe's executive vice president, but the car goes only 45 mph. Levitan says more than 50 dealers around the U.S. have ordered the cars and should have them this month and next. Why hasn't the three-wheeler, an idea that's been around since the



Karl Benz' 1885 three-wheeler
If at first you don't succeed. . . .

1880s, caught on in the U.S.? "It's been tried before at the wrong times," Levitan says. The right time, he is convinced, is now: "Some 150,000 people at the Los Angeles and San Diego auto shows this past spring saw our three-wheeled car, and acceptance was good. There is a need." General Motors apparently thinks differently. It has at least one three-wheeled prototype but no plans to produce it.

When is a ticker a ticker?

Like many big cities, Chicago faces big municipal budget deficits next year, with the Second City's deficits estimated at anywhere from \$40 million to \$150 million. And a city alderman thinks he has found a new way to raise revenue: taxing computer terminals. Combing through Chicago's municipal code, Edward Burke, chairman of the City Council's finance committee, uncovered a provision dating back to the 1940s for taxing "tickers." It had been aimed at discouraging

bookies operating out of "wirerooms" by forcing them to pay a \$6.50-a-year license to operate each ticker. Illinois has no off-track betting, so there are probably some horserooms still around. If the dusty licensing law is taken broadly enough, however, Burke thinks it could apply to almost any electronic device that either transmits or receives news and information. "There are hundreds of thousands of computers that do that in Chicago," he notes.

So who's worried?

Some mutual fund managers may be looking warily at the new "supermarket" financial giants—Sears, Roebuck, Prudential-Bache, Shearson/American Express—but T. Rowe Price, the Baltimore-based group with \$16 billion in assets and \$8.5 billion of that in ten mutual funds, professes not to be worried. An outside survey of 1,500 investors (including 1,200 T. Rowe Price shareholders), says a spokesman, showed that 85% are either not interested or only "somewhat" interested in so-called one-stop financial shopping. "The lack of support for the concept was uniform among investors in money market, stock or bond funds," Price claims. Shareholders prefer to diversify their investments with more than one firm, are satisfied with current arrangements or believe that one institution cannot specialize in everything, says Price. More than half (56%) of the shareholders surveyed used two to five institutions for their investment and personal loans, and one-third dealt with six to ten different institutions.

Education inflation

College students can expect a 9% to 10% increase in tuition and fees this fall, according to the American Council on Education in Washington, D.C. Students at public colleges and universities will spend an average of \$4,618 for tuition, fees, room and board during the 1983-84 season, says the ACE, while those at private universities will face average expenses of about \$8,939. Those increases compare with an expected rise in inflation of only 4% to 5% in 1983-84. "Analysts see average college costs outpacing inflation rates through 1984 in order to make up for ground lost during the late 1970s and early 1980s," explains ACE Research Associate

Cathy Henderson. She says colleges and universities held back on increases for faculty and maintenance while paying larger-than-expected sums for utilities. Salaries, for example, grew 44.9% from 1977 through 1982, while the general inflation rate went up 59.4%. Tuition, fees and room and board grew less than the CPI from 1977 through 1982, she adds. (For another analysis, see p. 46.)

What they are saying

Lee Iacocca, now Chrysler's chairman and CEO, was asked why, when he headed Ford five years ago, he allowed anyone to tamper with the design of the Mustang, the hottest car in the Ford line: "We were crazy."

A veteran network correspondent on Capitol Hill, asked whether Henry Kissinger, the new but still controversial chairman of President Reagan's special commission on Central America, was in for a rough time with Congress: "Don't underestimate how many of these people want to get their pictures taken with the guy."

Audit insurance

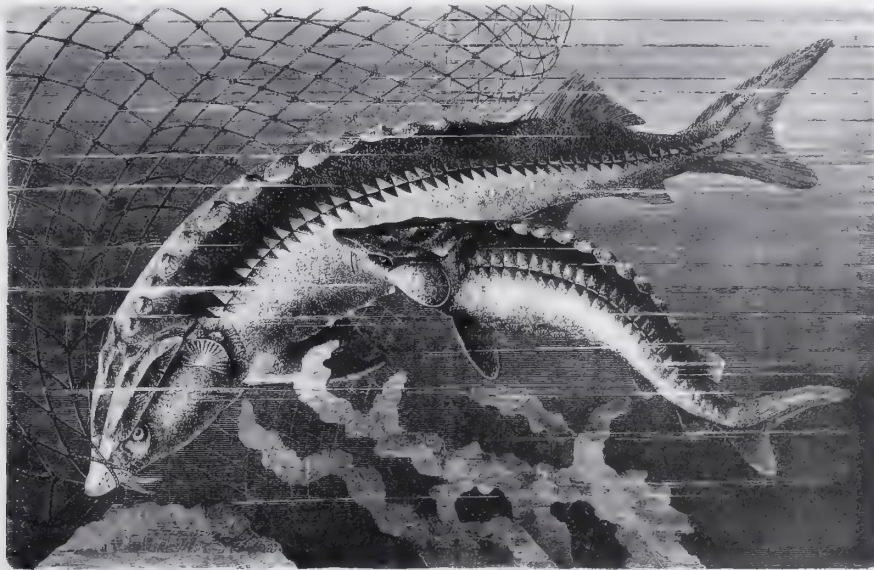
A new insurance policy that is supposed to pay off when a taxpayer loses a fall to the IRS—already approved by 22 states—is drawing cries of foul from the Treasury Department. "Providing reimbursement where non-compliance is detected has no discernible social benefit and can only result in increased contempt for, and noncompliance with, the tax laws," John Chapoton, assistant secretary for tax policy, told the Senate. So far the only such policy on the market is Taxright, developed and managed by a Washington, D.C. firm called Victor O. Schinnerer & Co. Inc. and carried by Omaha-based Central National Insurance Co. Schinnerer thinks those in the \$35,000 to \$125,000 range will buy the most policies, which cost from \$100 to \$600. A Schinnerer spokeswoman disputed Chapoton's charges, noting that the policy excludes illegal actions, omissions of gross income, mathematical and clerical errors and "highly aggressive" tax shelters. Returns must also be worked up by a CPA or a tax lawyer. A congressional tax expert granted that such policies might be a "compliance positive" factor, noting that the long list of all-bets-off clauses includes no coverage for IRS penalties or interest.

Gourmet's delight

High-livers can relax. The price of caviar has dropped a mouth-watering 30%. The reason? Obedience to the law of supply and demand, according to John P. Roberts, president of Iroquois Brands Ltd.'s Romanoff Caviar Co. When U.S. feelings were inflamed against Iran during the hostage crisis, he says, Iranian caviar was scrubbed from many menus. More important, with Iran in chaos, importers were leery of the chances of getting adequate supplies. So they had to rely on the Russians. Roberts says things have since steadied in

Proceeds, says Farrar, will be used to repay prior construction loans and for renovation of the Evans painting gallery and the nearby museum school building. It expects to amortize the bonds from operating revenues—admissions, shop sales, membership fees, school tuition and endowment income. The funding effort is backed by Massachusetts legislation that allows cities and towns to designate specific areas for revitalization. These "commercial revitalization districts" are eligible to raise tax-exempt financing through the Massachusetts Industrial Finance Agency. The Museum of Modern Art

(with 37 each). So, NCTV and groups like it are more than worried about a trend toward deregulation of television. NCTV says the FCC isn't fulfilling its fiat to protect the public interest, and a bill passed by the Senate earlier this year makes things worse by ordering the FCC to "eliminate unnecessary rules and regulation." NCTV could find some support in the House, however, where Representative Tim Wirth (D-Colo.), head of the telecommunications subcommittee, opposes deregulation. "You deregulate when there is a competitive market," says a Wirth aide. "That's true of radio, but not TV."



The kingly sturgeon

Even underwater, the law of supply and demand is at work.

Teheran and supplies have regained their old reliability. Moreover, Iran still enjoys the most-favored-nation status it has had since 1952, and so Iranian caviar comes into the U.S. with only a 15% tariff. Russian caviar must pay a 30% levy. With competition back and the dollar showing such strength, prices have naturally come down. Not that this kingly by-product of the mighty sturgeon is any bargain, even now. The best Beluga caviar, Roberts says, is down from \$275 a pound—to \$200—wholesale.

Bonds for art

The Boston Museum of Fine Arts has found a new gimmick—\$29 million in tax-exempt bonds—to ensure continuation of its renovation program without digging into its endowments. "We were looking for a bridging vehicle in anticipation of future fundraising," says Ross W. Farrar, associate director of the museum.

in New York and the Art Institute of Chicago have sold tax-exempts in the last five years, but those bonds were either collateralized with securities or secured by specific revenue streams. Says George Brewster, a vice president of public finance at the First National Bank of Boston: "The Boston Museum of Fine Arts bonds are unique."

Wham! Bam!

Mayhem on the tube is getting worse, according to the National Coalition on Television Violence, a group that wants a sort of "x-rated" system for rough-and-tumble shows. It charges that the first quarter of 1983 had the worst programming ever, with an average of nearly 10 violent acts—beatings, brawls, murders, rapes and the like—per hour of prime-time network programming. The worst offenders, says NCTV, were NBC's *A-Team* (with 40 violent acts) and ABC's *High Performance* and CBS' *Wizards and Warriors*

The wild blue yonder

The strange logic that rules air travel was never more evident than during the first half of this year. Although the airlines enjoyed a 6.8% increase in travel, an average of 80% of the tickets sold were at discount prices. (Tops was April, when 89% went for discount fares.) With the peak travel season under way, airlines have raised fares and may even make a small profit for the month of June. That first half, however, was a writeoff.

Something from nothing

Utilities have found a way to turn a throwaway into real money. In 1977, for example, San Antonio's City Public Service was planning to spend \$500,000 a year to bury the 150,000 tons of fly ash it expected to generate as waste at two new coal-fired plants. Then along came Monier Resources, Inc., a U.S. subsidiary of an Australian company, with a different idea: Sell the fly ash as a substitute for cement in making concrete. "If we couldn't sell the fly ash on a shared revenue basis," says Gerry Gordon, president of Monier Resources, Inc., "we would dispose of it at no cost to the utility." City Public Service now makes \$500,000 a year. Monier has \$20 million in total sales and sells over \$10 million worth of fly ash (more than 750,000 tons at \$12 to \$18 per ton) for some 17 utilities in 10 states, including Georgia Power Co., Florida Power Corp. and Duke Power. Monier is by far the leader in this up-from-nothing industry, says Gordon, but there are now 20 or 25 companies selling 3 million to 4 million tons of fly ash a year. That hardly makes a dent in the cement industry (which produces about 70 million tons a year at more than \$60 a ton), but the utilities are making a profit on a once-useless by-product.

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Follow-Through

Clean air, or else

Ten years ago, the Environmental Protection Agency moved to phase out the lead in gasoline by requiring that all cars made after 1974 burn only unleaded fuel. Consumers have been thwarting that aim, however, by fitting plastic adapters onto the nozzles of regular pumps and filling their cars with leaded fuel at savings of up to 50 cents per gallon (FORBES, Apr. 11). "It is not clear what, if anything, the EPA can—or will—do about it," FORBES noted. The 1973 law put the burden of enforcement on station attendants, but nowadays 70% of gas sold nationwide is self-service.

Equally serious for the EPA is the epidemic substitution of so-called test pipes for catalytic converters. The converter (now a must on all gas-powered cars) changes carbon monoxide and hydrocarbons into harmless carbon dioxide and water. Lead levels in the blood of Americans were reduced by almost 37% between 1976 and 1980, says the National Center for Health Statistics in Hyattsville, Md., a decline it says probably came from reduced lead in gasoline. But the EPA estimates that one in five cars on the road has been tampered with and that 2 million to 3 million test pipes are being installed each year. Removing converters, says EPA attorney Marc Hillson, can increase some pollutants by 300% to 900% and does not increase fuel economy or otherwise benefit consumers. (Ford Motor reports that removing converters and burning leaded fuel increase maintenance requirements.) "If people really knew what they were doing," Hillson says, "they wouldn't do it."

The EPA is not sitting in neutral, however. The Clean Air Act does not prohibit individuals from using leaded gasoline. Nor does it prevent them from installing test pipes; but by law, third parties cannot install them. So the EPA is investigating two of the major replacement-pipe producers: Products for Power, a Chicago subsidiary of CED's Corp., and National Muffler Manufacturing Co. Inc. in East Point, Ga. The EPA believes the firms have caused illegal installation of test pipes and wants to stop it. Both have sued the EPA to halt proceedings. In Chicago the court enjoined the investigation, but Atlanta's district court has not yet ruled.

There is action at the state level, too. In California the Air Resources Board has forced five test-pipe firms

out of the market in the last two years and is preparing a case against National Muffler Manufacturing. "The companies have all agreed not to offer the devices for sale here and to tell distributors their sale is illegal," says board press secretary Bill Sessa.

Clean air may not be on the way out, after all.

The kings don't care

The million-dollar horse had already become commonplace two years ago, with the prices of Thoroughbreds rising 15% a year, yearlings and brood mares commanding seven-figure tags at the auction block and stallions becoming multimillion-dollar syndicates (FORBES, Mar. 30, 1981). Some thought horses would outrace inflation forever, though purses and racetrack attendance were not keeping pace.

The pace has only quickened since.



*The \$10.2 million colt
 From breakneck to unbelievable.*

At the Keeneland summer sales in Lexington, Ky. last year, Britain's football-pool king, Robert Sangster, beat out Mohammed bin Rashid al Maktoum, heir apparent to the throne of Dubai, by paying an unheard of \$4.25 million for an unnamed colt sired by Nijinsky II, a son of the great Northern Dancer. A colt sired by Preakness and Belmont runner-up Alydar brought in \$2.2 million (Follow-Through, Aug. 30, 1982).

This year the pace went from breakneck to unbelievable. At Keeneland, Sangster and the Dubai sheikh met again, battling until the royal heir was forced to lay out \$10.2 million for another colt sired by Northern Danc-

er. That was more than double last year's record price. "This is a racing prospect, and it makes no financial sense whatsoever," noted one expert (and nonbidding) observer. "It just became a matter of ego." But even without that \$10.2 million top sale, Keeneland's average yearling price rose 49% this summer. The median went up, too, from \$210,000 last year, to \$300,000. It's the sport of kings and the kings don't care.

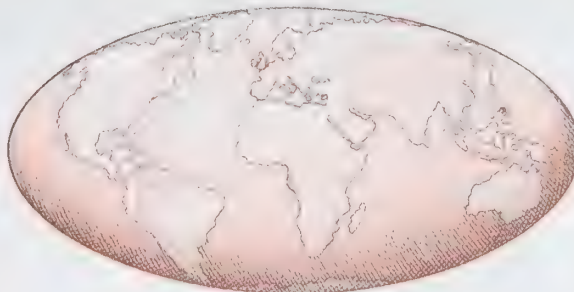
Help on the air

Newspaper publishers have earned their reputation for watching the pennies, but they have their generous moments, too. Last year three major dailies in areas hit hard by the recession handed out thousands of lines of advertising to let their readers run free job-wanted notices (*FORBES*, *Trends*, *May 10, 1982*).

Now television is in the act. In April President Reagan called together 75 broadcasters, most of them from TV, to thank them for their volunteer efforts to deal with unemployment. The White House credited them with creating (or at least finding) 20,000 jobs since last year. Some stations screened men and women looking for work; others showed business spokesmen describing available jobs. New York's WPIX did both, besides presenting specialists with advice on how to prepare résumés and how to get prepped for job interviews.

One station that has gone beyond that is KDKA, the pioneer CBS affiliate in Pittsburgh. With unemployment there more than 16% last winter, the station collected \$90,000 worth of Thanksgiving turkeys for 9,000 families. It then used a symphony orchestra's river barge to collect food at five river ports, and its volunteers got 23 tons of food for distribution to the unemployed. It has begun to feature two jobless persons for 15 seconds each on its weekday 6 o'clock news program and has held weekly food drives in 25 Pittsburgh-area towns.

Together with a 2½-hour job-a-thon broadcast in March, the newscasts on the unemployed have generated 2,000 interviews and at least 100 jobs. Using volunteer National Guardsmen and county maintenance workers, the station has collected over 60 tons of food and \$20,664 to stock area "food banks." Surprisingly, all this has done little for KDKA's ratings. A spokeswoman says, however, "It makes people feel better about the station." Moreover, she adds, "dire necessity prompted us."



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Readers Say

More IRAs?

SIR: Though I understand your concern about wasteful subsidies, I feel you missed the point in your discussion on congressional proposals for new kinds of IRAs such as Individual Housing Account ("The newest pork barrel," *July 4*). Our tax laws have seriously penalized both saving and investment. Nontaxable accounts such as IRAs provide a valuable opportunity for small savers.

—James A. McClure
U.S. Senator (R-Idaho)
Washington, D.C.

We question whether a proliferation of new sorts of IRAs is the best antidote to the antisavings bias of our tax code.—ED.

Beef about burger test

SIR: As a small stockholder in McDonald's, I am unhappy with "So Which Burger's Best?" (*Fact and Comment, July 18*).

First, the panel: "a group of FORBES staffers." Five? Twenty-five? Aficionados? Dopes? Second, the samples: "bite-size bits." I will not tell you how I would rate FORBES if I attempted to on this sample.

—Brandon B. Shea
Falls Church, Va.

We invested in Harley

SIR: Although it may be convenient to heap the current woes of Harley-Davidson on a former corporate parent ("Thunder road," *July 18*), it is only fair to note that from 1975 to 1981 AMF invested nearly \$56 million in Harley-Davidson motorcycle engineering projects.

The Porsche-designed Nova engine project, cited in the article, was begun by AMF in 1977, as was development on the new FXRS bike, which Harley introduced after it was divested.

—Donald P. Rosendale
Vice President-Public Affairs,
AMF
White Plains, N.Y.

He's listening

SIR: In your Fact and Comment of July 18 ("Messrs. Feldstein, Regan—Are You Listening?"), you specifically called my attention to your discussion with President Reagan about

your concern that some people in Washington may think that "the recovery's out of hand already." That is not my opinion.

You also suggested that there may be some in the Administration who would like to see interest rates rise. My own wish is just the opposite.

However, as long as the Fed follows a prudent monetary policy, large anticipated budget deficits will inevitably mean high real interest rates. The prospect of continuing budget deficits [would be] eliminated by enacting now the Administration's budget proposals, spending restraint and the standby tax.

—Martin S. Feldstein
Chairman,
Council of Economic Advisers
Washington, D.C.



Martin Feldstein
Fears future deficits.

They reduced expenses

SIR: You stated (*The Funds, July 18*) that the Vanguard Funds use an SEC "12B-1" plan in which a fund is charged added expenses for sales commissions and other distribution costs. Such plans represent a substantial increase in a fund's expense ratio.

Vanguard, in fact, has done precisely the opposite. We have reduced investment advisory fees by approximately 0.10%, in return for assuming distribution costs approximating 0.08%. Net result: a reduction in the Vanguard Funds' expense ratios.

—John C. Bogle
Chairman,
The Vanguard Group
Valley Forge, Penna.

Bishops not balmy

SIR: Re "The Bishops Bomb Out" (*Fact and Comment, June 6*). As a journalist, you should respect the value of public

discussion of public policy. Yet you seem to object that the bishops have seriously and carefully formulated their judgments on an issue of immense importance. They are certainly fully aware they are unable to shake the policy or the consciences of the Kremlin. Yet, they judged (as do I) some actions are ethically unacceptable, no matter how great the danger, no matter what provocation.

—Don N. Kersten
Ft. Dodge, Iowa

SIR: Too bad the bishops do not see nuclear energy and nuclear bombs as God's great gifts to a troubled world.

Witness nuclear energy's safe, extensive usage in crowded Japan and in France. Also, nuclear bombs are a deterrent to war.

—William G. Kahbert
St. Paul, Minn.

Dry question

SIR: Re the Blessings Corp. and their diaper service (*The Up & Comers, July 4*), it is stated, "in the age of Huggies, Luvs, Pampers and other disposables, which soak up 80% of the market."

Is that dollars or gallons?

—Woodlief Brown
Abilene, Tex.

Indexing works

SIR: Re your editorial supporting indexing of income tax rates (*Fact and Comment II, June 20*). As a Canadian, I have experienced indexing for a number of years. It is very helpful to retired persons on fixed income.

—John Reeve
Dounsview, Ont

Up to snuff

SIR: The article "Paris—when it sizzles" (*Personal Affairs, June 20*) says, "The Hotel Ritz-Espadon is very comfortable and pretty, but the cuisine is not up to that of the Bristol and the Crillon." Michelin awarded the Crillon two stars for its dining, but the Bristol has only one star. The Espadon restaurant was awarded its first star in 1981 and the second star in 1983.

—Frank Klem
Managing Director,
Hotel Ritz
Paris

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Our new \$23 million Lisle Training Center is a "Service

University" that trains many of our 16,000 service and support people in the latest state-of-the-art computer technology.

Our experts are taught, for example, to use a highly advanced diagnostic device called a logic analyzer which is remotely controlled so they can diagnose complex problems instantly from our customer support centers without the delay of travelling to your company.

What's more, the new Burroughs Parts Inventory Management System is designed to get you

the right spare part at the right place and at the right time.

What all this adds up to is that Burroughs is committed to doing everything humanly (and electronically) possible to provide our customers with the best service and support in the industry.

And with \$100 million behind that commitment, it's a lot more than just talk.

Burroughs

THE QUESTION ISN'T WHO'S BIGGER.
IT'S WHO'S BETTER.

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

IT'S A GOOD THING FOR US THE U.S.S.R. WOULDN'T TRUST

any U.S. promise not to be the first to use nuclear weapons in the event of a war with them.

A while ago in that influential quarterly, *Foreign Affairs*, four former Power figures—McGeorge Bundy, George Kennan, Robert McNamara and Gerard Smith—made a joint request that the U.S. make such a stupid, unilateral pledge.

Given the Soviets' overwhelming dominance in manpower under arms, in tanks, in numbers and quality of guns, artillery and all the other paraphernalia of conventional battle, what do these Four think keeps Russia from taking over the Middle East and most of Europe?

NATO's numbers and conventional arms capability?

Saudi Arabia's military capability?

Our recently constituted mobile strike force?

It's because the U.S.S.R. figures—rightly, I believe—that if it launched an Afghanistan-like assault on neighboring states and overwhelmed Western Europe and/or the Middle East, Russia would face atomic weapons. And, of course, from such an exchange no one knows what mutations would ultimately evolve.

But all of us know there would be no world as we know it. No "winners."

Our nuclear capability to strike back keeps the peace. America's nuclear umbrella and the possibility/probability that it would be used *in extremis* keep the Free World free.

OBSERVED ONE EMINENT CERTIFIED PUBLIC ACCOUNTANT

to FORBES the other day: "In effect, auditing firms are selling their signatures to the corporate reports they sign. So why shouldn't they be held to account for what they sign?"

ANDERSON'S RERUN IS A TAXPAYER RIP-OFF

Remember the excitement former Congressman John Anderson created when he became an independent presidential candidate four years ago after failing—along with several others—to stop Ronald Reagan's nomination at the Republican convention? He had a sort of fresh and fair Mr. Clean look about him and attracted more favorable media hoopla than either regular party nominee. By Election Day a lot of that patina had rubbed off. He received just 7% of the vote.

It would seem we're now down to the base metal.

Because of the way the law's written, that 7% showing in 1980 entitles him to \$6 million in matching taxpayer funds the next round. So he's going to run again for President. In response to no visible demand except ego.

What a travesty on everything his four-years-ago enthusiasts thought he personified. An exercise in futility four years later that rips off \$6 million from his countrymen.

At least Stassen paid for his own futility.

KIDS' VIDEO-GAME DEXTERITY IS A NATIONAL

asset of considerable consequence. The dummies are not the youngsters who spend hours feeding innumerable dots to insatiable Pac-Man. The dummies are the deplorers who are blind to the enormous value of having millions of

youngsters totally at home with a screen on which they can do any sort of extraordinary thing—visually, by the numbers, intelligently. Today's lads and lassies can challenge and be challenged, matching their wits with soft-

ware mostly wiser than some of the softheaded who teach/preach in classrooms.

Remember, it was the kids who grew up tinkering with Model Ts and tractors who gave this land its extraordinary head start in wheels and engines, in technical, engineering and productive capabilities.

Literally every day the need grows by the hundreds and by the thousands for more people with high-tech comprehension and skills.

The other day the chief education officer for the American Association for the Advancement of Science said in the *Wall Street Journal* that "there is no quick fix" for the

shortage of scientists and mathematicians. Baloney. From this reservoir of video-game-addicted youngsters there are countless thousands wanting to know how the game is played, how the rules are made, and how they can make the latter and win the former. There's always a bright percentage (see p. 36) who would rather make the software than be fed by it. So what if a few overenthusiastic kids see spots and dots and beams and splats in their sleep? They'll wake up and go on to take charge of the monsters.

Get off their backs. Just feed 'em tougher games.

They're so at home with high tech they don't even know what the phrase refers to.

FOR MOST OF THE UNEMPLOYED, JOBS IN THE PRIVATE SECTOR

are the only real answer. But that answer is largely no answer for the vast percentage of young, inner-city unemployed, i.e., blacks, Hispanics, Chicanos and other minorities. There is a potential answer, though, for those suffering this unyielding, embittering frustration.

During the Depression's direful days in the Thirties, one program that worked wondrously well was the Civilian Conservation Corps. It employed around 3 million youngsters and lastingly enriched our land—as, for instance, in the planting of 1.3 billion trees.

Today we have a crying need for reforestation, for fire trails, for drainage and flood control, for rehabilitating city parks and our national park system.



Calif. Conservation Corps worker

New York's Democratic Senator Pat Moynihan and Maryland's Republican Senator Mac Mathias are sponsoring a Senate bill for a new conservation corps that would hire up to 100,000 unemployed youths at the minimum wage to tackle such conservation tasks. The House has already passed a bill of similar intent.

The economy's recovery isn't going to meet the youth employment need that plagues virtually all our cities. With a renewed Civilian Conservation Corps we can make a real beginning in tackling

the problem. And with the work that corps volunteers could accomplish, they would richly enhance our environmental heritage.

THINGS THE NEXT 50 YEARS WON'T SEE—WE HOPE

The most comprehensive Look Ahead yet is contained in *U.S. News & World Report's* Special Supplement marking that valuable magazine's own 50th birthday. However, in its challenging survey of what the next five decades may bring to a broad spectrum of areas, there are a couple of specific predictions that seem too way out:

- "Space colonies will orbit the earth . . . floating cities will house thousands of people. . ."

Why? Other than space warfare platforms, why on earth—er, in heaven's name—would we spend incalculable \$billions to put cities into orbit?

At a fraction of the cost, we could make the earth more livable for more people. That would seem to be

sufficient challenge for the next hundred years.

- "The moon will be mined for its wealth. . ."

Why? We've hardly scratched the earth's 260 billion cubic miles of riches. We need to mine the moon?

- "Levitating trains will travel at 250 miles an hour. . ."

Who needs it? Let's hope that sometime before 2033 our subways and trains will run on time and be clean and safe. That will elevate the spirits of more people than levitating the trains could possibly do.

But aside from these wee quibbles, this *U.S. News* forecast deals excitingly with where it's likely to be at for us all in the next five decades.

Movies

● **The Draughtsman's Contract**—A 17th-century murder mystery in an English manor house. It has the critics awed, but you'll probably be as bored and bewildered as I was. A Whodunit with no Who. ● **Octopussy**—This James Bond 007 film is as much fun as ever, and that's much fun

indeed. The plot revolves around a famed Fabergé Egg (it's a representation of the Imperial Coronation Egg in the Forbes Collection) that is a pawn in an international Kremlin power struggle. Compared with Bond's hilariously miraculous escapes and escapades, *Superman* is a clod.

● **Porky's II**—The original *Porky's* had some funny sequences, some funny gags. Having seen/heard none half-way through *Porky's II*, we left. ● **Return of the Jedi**—Any picture that takes in \$45 million in its first week and may well be an alltime film moneymaker has to have something going for it, right? Wrong. This "Star Wars III" is a boring travesty of its progenitor, good only for the stuffed-animal business and those in the movie business. ● **Trading Places**—This remake of *The Prince and the*

Pauper in Greedy-Big-Business clothing has lots of yucks but none of the poignancy and point of the classic it rips off. In Hollywood's hallowed tradition, the Rich, the Company and the Law are viciously villainous. ● **War-Games**—A video-game whiz kid finds himself plugged into our thermonuclear nerve center computer and comes within an eyelash of setting off an obliterating exchange with the U.S.S.R. The hyped-up hokum of the second half detracts much from an otherwise scary scenario.

A YEAR FROM NOW I'LL BE ELIGIBLE FOR SOCIAL SECURITY

As this milestone of middle age approaches, Woody Allen best expressed my feelings on the matter: "Some people try to achieve immortality through their offspring or their works. I prefer to achieve immortality by not dying."

... SPEAKING OF IMMORTALITY

Thanks to the fact that medicine men today know a bit more about why and what they do to us, plus the interface (if the Pentagon will excuse our borrowing their jargon) of biology + chemistry = gening, we can all expect to live far longer. That is, if we don't slip in the bathtub or play real atomic games.

So one can now reasonably term 64 as middle age. Okay, uppermiddle age, if you want to be persnickety. I feel the late

German Chancellor Adenauer's observation, as reported by Richard Nixon in *Leaders*, is entirely in order:

"During an interview on Adenauer's 90th birthday in 1966, after he had left office, a reporter reminded the former chancellor that he had also interviewed him on his 80th birthday and said that he looked forward to doing so on his 100th. Responded *der Alte*, 'Certainly. I will tell my secretary to make a note of it.' "

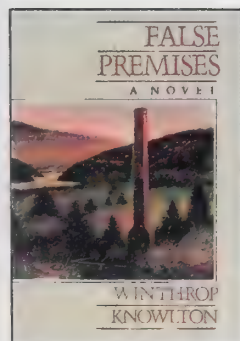
LIFE IS NEVER

as you used to think it was going to be.

RETIREMENT

kills more people than old age.

BOOKS



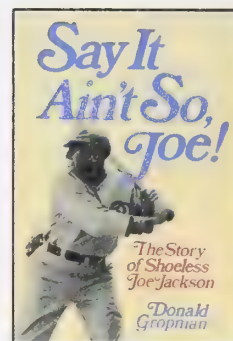
● **False Premises**—by Winthrop Knowlton (Random House, \$12.95). Most books are too long, but one wishes this Proustian demitasse were a much bigger cup. Win Knowlton captures with enrapturing insight the full flavor of that era in which those of us now white-haired grew up.

Excerpts: Once, high up in the hills, Andrews and I were deciding whether or not to cross an icy pond. If we fell through, no one would know, no one would come to rescue us. It was then he confessed that he had no physical courage. His father had seen this in him and told him it made no difference—some people simply did not. They made up for it with other kinds of courage. "Like what?" I asked, a little resentful that cowardice could be acknowledged this way, even condoned. He thought for a long time, but did not answer me. Finally, we did not cross the pond. . . . That evening, sitting in the paneled bar with its coal fire and display cases of snowy owls, Andrews told me what I had already suspected, that his father was dying. As I began to praise him for staying near his father these last years and not going to Oxford, as he had dearly wished to do, he put his hand out and said, "I knew the day would come when I would miss him; but, you know, I didn't wish him to miss me."

● **Say It Ain't So, Joe!**—by Donald Gropman (Little, Brown & Co., \$11.95). It's hard now to realize how baseball, in its heyday, totally dominated American sports. Near its zenith occurred sports' great scandal, the "fix" of the 1919 World Series. This is the story of one of baseball's then-Greats, Joe Jackson, accused of being at the center of the conspiracy. However, the author finds him Not Guilty.

Excerpt: As a player there is no doubt Shoeless Joe Jackson belongs in the Hall of Fame. But it might be a disservice to the memory of the man to take his name out of banishment, for it was in his banishment that he achieved his greatest feat: under the weight of a great slander he played baseball as long as he was able and he carried himself with dignity.

If Shoeless Joe Jackson is no better than the men enshrined in the Baseball Hall of Fame, men like Cobb, Comiskey, Landis, and McGraw, he is also no worse. But they have become legendary figures known for their heroic deeds and he has become a symbol of failure and corruption. As he told an old Greenville friend the day before he died, "I don't deserve this thing that's happened to me." In truth, Joe Jackson's greatest crime was his innocence.



Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Merger-Schmerger

There are no precise statistics, but the reality is that most mergers do not work out. Some experts say that as many as seven of ten have been failures. Tens of thousands of viable and thriving businesses were acquired by giants in recent decades, and most were eventually ruined or weakened.

Widespread departures usually follow a hostile takeover—the acquired business then erodes since its vibrancy lies with the people who made it successful.

When companies get too big, through merger or otherwise, they often lose the capacity to create new products. We castigate bureaucracy in big government but overlook that big bureaucracy has an even more adverse impact on business.

—Arthur Burck, securities lawyer specializing in mergers and acquisitions, *New York Times*

Who Wants Curing?

There's a drug called chymopapain that can help thousands of people suffering from intense back pain and save millions in surgery costs. Yet it took the FDA 19 years before it finally approved it last fall. It's not that there was evidence that the drug was dangerous. Rather, the FDA wasn't convinced that it would be effective. The reason for doubt was that it didn't seem to help some disabled veterans get well. It did not occur to the FDA that veterans on disability pensions

have a very practical reason not to throw away their crutches and leap into the air shouting, "I'm cured. . ."

—*Washington Monthly*

Looking For Magic

On Sunday mornings I went to my aunt's apartment and lay on the floor reading the newspapers and listening to Horowitz and Licia Albanese. I told Aggie that Arthur, discovering that I liked music, had asked me to accompany him to the opera at Christmas. I was taken aback: I didn't know he liked that kind of thing. "Why, sweetie," my aunt cried, "those are the ones who do—lawyers and bankers who've taken all the magic out of their own lives."

—False Premises
by Winthrop Knowlton

No Picnic

Near my hometown in the Sandhills of North Carolina, stands of tall pine trees line the roadsides. I well remember from the 1930s the young men of the Civilian Conservation Corps setting them out across the eroded old fields. Much of this [type of conservation] work is still visible and still environmentally valuable nearly 50 years later.

There's no way to measure the other achievements of the CCC—the hope it gave to the hopeless, the skills it taught the unskilled, the social dynamite it defused by providing alter-

natives to idleness and resentment, even the quasi-military field life to which it introduced a generation destined to emerge from Depression into World War II. . .

The California Conservation Corps' slogan—"Hard Work, Low Pay, Miserable Conditions"—suggests that it is not a picnic or hiking trip. A federal version could be just as demanding; and it probably would do more to diminish street crime than any of the dubious proposals President Reagan recently unveiled.

—Tom Wicker, *New York Times*

We find ourselves suddenly threatened by hordes of Yankee emigrants whose progress we cannot arrest.

—California's last Mexican Governor
(in 1846), quoted in *Time*

Anybody But

David O. Selznick, his wife's writing indicates, was not an easy man to live with. At one point she discovered that Hollywood domestics registering with an employment agency would list, along with salary requirements, the words, "Not Selznick."

—Howard Kissel, in *W*

Fran Camps Out

"Uh, Jean?"

"Yes?"

"Are you awake?"

"Yes."

"What the hell is that?"

"What?"

"That funny glare outside."

(Pause) "The moon, Fran."

We are in a tent. Fran Lebowitz is lying on my right. George Butler on my left. Fran lights up a Carlton.

"You don't sleepwalk, do you, Fran?" George asks.

Fran exhales a fog of smoke.

"I don't even wake when I'm awake," she says.

Fran, the author of *Metropolitan Life and Social Studies*; Fran, who said the outdoors is "a place you must pass through in order to get from your apartment into a taxicab"; Fran, who described nature as "a location where there are never enough comfortable chairs"; Fran, who called the sun "the sort of harsh overhead lighting that is so unflattering to the heavy smoker"; Fran, whose agent laughed like a maniac at the mention of the idea—Fran is camping out.

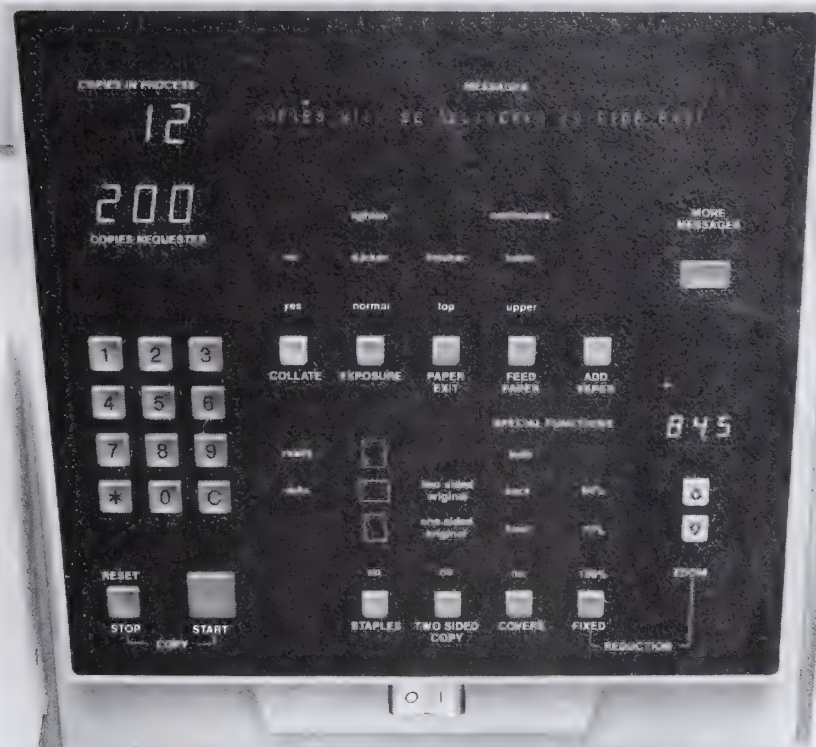
—E. Jean Carroll, *Outside*



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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief



WILL PAUL VOLCKER ACHIEVE GREATNESS?

The recently reappointed Federal Reserve chairman has a unique opportunity to leave a lasting, positive legacy to his country and the Western World. He can take the lead in creating a monetary system that would help ensure that there will not be another debilitating round of inflation or deflation, that this recovery will truly not be the ephemeral kind we've had since the late 1960s.

Investors have a considerable stake in whether Volcker rises to the occasion. If he does, the bull market since mid-1982 will be only a harbinger of a great deal more to come. If not, well, just recall what happened to stocks and bonds in the 1970s.

No central banker has the power Paul Volcker has today. True, he reacts carefully to pressure from the White House, from Congress, from economists, banks, etc. That is one of his sources of strength. He has been a master at giving just enough to anyone who counts to preserve his basic flexibility.

Flying Blind

The problem for Volcker—and the source of his opportunity—is this: The Federal Reserve today has no rules, no standards, by which to judge its conduct. It is flying blind, and has been doing so since the late 1960s, when Lyndon Johnson gratuitously destroyed the Bretton Woods international monetary system.

Our central bank doesn't know whether it is printing too much money, too little or just the right amount. It can only guess the impact of its activities on the U.S. and the world economies, only surmise whether it is being a force for stability or instability.

It wasn't always this way. Under the gold-based Bretton Woods system, if a currency came under attack in the exchange markets, policymakers knew they had to tighten up. The Fed has no such reliable compass today. Hence, the current hullabaloo over whether or not the Fed is being too loose.

To realize fully our economic potential, savers must have confidence that there is money to be made investing for the long haul. People must have faith that there are

rules for preserving the value of the dollar, that these rules are sensible and workable and that the essence of them will survive changes of personnel.

Otherwise, the strong, heartening recovery under way will ultimately meet the fate of every recovery since 1968, when Bretton Woods was effectively short-circuited—it will degenerate into stagnation with soaring interest rates.

Volcker should now be acting as a catalyst for the creation of a new, sensible monetary system. He should be scouring the history books to learn what the common denominator of successful systems of the past was and to put forth proposals for a new monetary constitution, a constitution that would be based on the signals of the markets rather than the all-too-fallible judgments of economists, central bankers and politicians.

New System Could Work

Such a system would be no panacea. If politicians behaved irresponsibly, it wouldn't last. But Reagan, Thatcher and Kohl are a different breed from their predecessors. They are sound enough to make a new arrangement work.

Why Volcker as the architect of a stable monetary system? Because neither the White House, the Treasury nor the State Department, not to mention Congress, will take up the cudgels here. There is a vacuum. Only Volcker can fill it.

Will he?

The portents are not good.

It isn't to detract from the Fed chairman's ability and political agility to observe that it must be a heady experience to have financial markets, even government heads, hanging breathlessly on what you say each day. Ronald Reagan himself doesn't normally move markets, change the outlook for business, influence the direction of interest rates the way Volcker routinely does every time he opens his mouth.

Of course, Volcker's unwillingness to take the lead in no way diminishes the criticism that can be rightly laid at the doors of the rest of Washington officialdom, not only for creating the problem Volcker has yet to tackle, but also for not recognizing that it exists in the first place.

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WHAT THE MARKET IS SAYING

Inflation's big engines have been turned off

IT'S NEVER POSSIBLE TO PLEASE EVERYONE. The recovery is far stronger than the consensus forecast said it would be. But economic masochists find cause for gloom. Pointing to higher than expected money supply increases, they contend that rates and inflation will be shooting up.

Not likely. Although inflation and rising interest rates have accompanied economic growth during most postwar expansions, there is no inevitable connection between them. There is good reason to think the linkage is broken this time around. The inflationary psychology of the 1970s is fading. We are going into this recovery with idle plant capacity and with financially sound consumers able to buy without sinking heavily into debt. So, neither consumers nor businesses will need to borrow heavily.

Is the basic money supply increasing too fast for comfort? The published figures suggest this may be so, but the fact is that even the Federal Reserve's governors no longer totally trust the published figures. The correct signals are now coming from the financial markets, which are saying that money increases have been moderate rather than excessive. Thus, What's Ahead predicts for the balance of 1983: 1) a firm dollar; 2) weakness in gold and tangible inflation hedges; 3) an absence of commodity speculation; and 4) continued strength in the stock and bond markets. Encouraged by all this, the recovery will pick up strength. Real GNP growth will approach 9% this year and next.

The Fed is now more reactor to, than controller of, money fluctuations

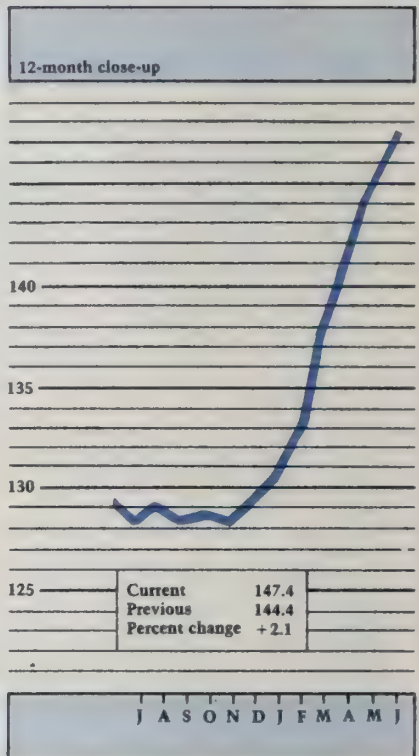
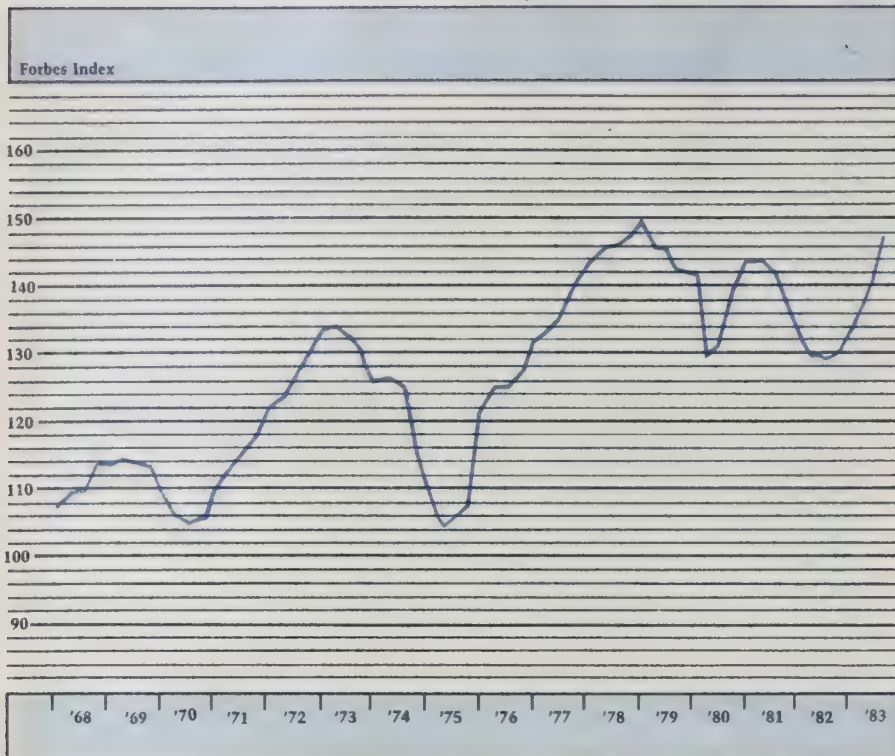
REGARDLESS OF WHAT THE CENTRAL BANK now does, the basic money stock, M1, composed of cash and checking account balances, will be up this year. One reason is that individuals, believing that inflation has been tamed and the dollar will remain strong, are hanging on to cash longer. Another is that corporations will beef up balances in checking accounts as business improves. Because M1 is now largely made up of such "private" deposits, the Fed is more of a reactor to, rather than controller of, money fluctuations.

Moreover, a close reading of the M1 figures tells a different story from the obvious one. Until 1981, M1 was basically made up of cash and deposits paying no interest. But today interest-bearing accounts are included in M1. Consider what this means: Money has shifted from savings accounts into these interest-bearing demand deposits. Thus M1 growth has been slower than the figures indicate. So the Fed's recent decision to accept the first half's seasonally adjusted 14% surge in M1 and move the second half's target range up to 5% to 9% is both sensible and prudent. (*For another view, see Ben Weberman's Capital Markets column, p. 119.*)

Markets know more than monetarists

NOTE THAT THE DOW JONES INDUSTRIAL AVERAGE spurted more than 30 points the day the central bank broadened its targets. Energy prices are weak. Wage increases are manageable and more tied to merit. Productivity is up. And the firm dollar is putting downward pressure on import prices. Such factors will determine the course of inflation and interest rates into 1984. Look for inflation to average less than 3% this year and for rates to be lower at year-end than they are today.

The Forbes Index



More good news. The Forbes Index continues to rise as the smokestack industries bring mounting support to the recovery. Industrial production increased by 1.1% for the second month in a row; the Forbes Index registered a 2.1% gain.

Consumers also continue to propel the economy forward. Installment credit outstanding was up by 0.8%, while personal income rose 0.6% during the latest reporting period. The combination of these factors helped to

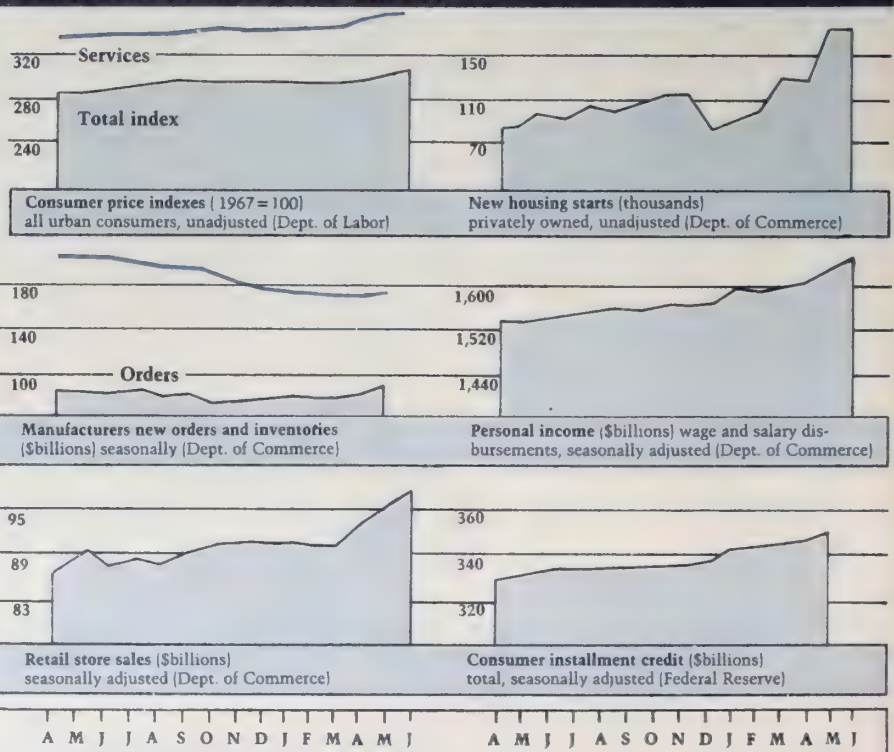
push up retail store sales by 0.7%.

Inflation is still under wraps. The Consumer Price Index inched up just 0.3% and the increasingly important service sector index posted an almost-as-small 0.4% rise. The only cloud on the horizon came from the housing sector. After jumping by 28.1% in May, new starts were off a slight 0.1% in June, possibly reflecting a seasonal breathing spell.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.





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Wood is a resistant material.
It takes shape slowly, sometimes reluctantly..."

John W. Teets
Chairman of the Board
The Greyhound Corporation



For a copy of the 1982 Greyhound Annual Report, write the Public Relations Department: Greyhound Tower Phoenix, Arizona 85077

Unlike clay, which takes shape quickly, wood resists the chisel and the adze. It takes muscle and time to pare away the husk and reveal the heartwood. It takes the ability to visualize in the third dimension and the patience to go slowly and thoughtfully about the task. And then, in a single instant, there is a moment when form and essence mingle, and life seems to spring from the wood.

The result is something greater than the combined skill of the artist or the elegance of the raw material. The result is something different and enduring. Something imbued with spirit.

As the new chairman of The Greyhound Corporation, I commissioned the wood carver to create the cover of our 1982 annual report as much symbolism as its beauty. It represents what we are doing at Greyhound... honing and refining the body corporate... paring away the excess at revealing the essential strength and endurance that lie beneath.

The Greyhound Corporation today is not what it was a year ago, nor what it will be two or five years or a decade from now. We have made Greyhound leaner and swifter through disposition of a number of subsidiaries and, in the month



come, we will be adding to its size and diversity as well, giving it the chance to stretch its abilities and run, full out, wherever imagination and excellence can take it.

There is nothing haphazard about these changes, however. At Greyhound, we operate in the conviction that *planning begets progress*! And so, before we turn our hand to any aspect of shaping the corporation into a more vibrant, dynamic organization, we immerse ourselves in meticulous planning. There also has to be discipline. The hard discipline of assuming respon-

sibility for decision-making, for profitability, for managing our own future.

This wood carving of the greyhound has evoked an unusual response from people. One I think is more than just artistic in nature. It has something to do with a respect for excellence, with a recognition of high courage and determination. I like to think The Greyhound Corporation embodies that same spirit!

The Greyhound Corporation

A few years back the film Coming Home caught the public fancy. This year the hit is An Officer and a Gentleman. The shift in taste bodes well for the national defense.

The new recruit: motivated and ambitious

By Allan Dodds Frank

MARINE BRIGADIER GENERAL Michael Sheridan recalls recruiting difficulties in the early post-Vietnam days: "We advertised for a few good men. We got a few good men and a bunch of bums. The barracks were full of thugs."

Those days are gone. For the first time since the all-volunteer force began in 1973, U.S. forces are better qualified than yesterday's draftees. The services will take in at least 307,500 new recruits in fiscal 1983. Of those, nearly 90% will have high school diplomas. That 9-in-10 figure compares with only 7 in 10 for the 20.1 million in the 17-to-21-year-old age group. As recently as 1979 only a trifle over half the recruits were high school graduates. On intelligence tests, military-bound youths scored 9 percentage points higher than the national average. All four services are running at more than 100% of enlistment quotas. Choice guaranteed assignments, carrying bonuses of \$1,000 to \$8,000, are filled through October. First-term reenlist-

ments, a record high 68% last year, are down to 51% for 1983. With so many good new recruits available, the military now won't allow troops with low test and performance scores to re-up. ROTC has recruited 130,000 students, double 1973 figures. The re-

reason for joining. More important in their eyes are educational benefits that include college tuition money after discharge, self-improvement, learning a skill and the adventure of operating military equipment.

But personal advantage is only part of the picture. Soldiering is no longer held in contempt by young people. Says Dr. Lawrence J. Korb, assistant secretary of defense for manpower, reserve affairs and logistics, "Now people think it is a good thing when their children go into the service. Kids can go back to high school on career day and be proud they are in the service."

Proud—and helped besides. Fairly typical is the case of 17-year-old Robert Lawrence of Rockville, Md., who enlisted in the Army and was given the

choice of becoming a military cook right away or going to summer school to get his diploma, to be followed by an assignment to combat arms. Lawrence chose the diploma route. "The Army straightened me out a lot," he says. "I needed something to motivate me. I was in with the wrong crowd." But the choice must be the



The Marine welcome at Parris Island
"We advertised for a few good men."

serves and National Guard are full; applications to the service academies are up 15%.

The recession? That's the easy answer, but it isn't the right answer. The mood of the country is changing, and so is the appeal of military life. Today, Army recruits rank getting a steady job as only the fifth most important

recruit's own choice. The military no longer serves as a reform school for bad actors. "Parents call us and say 'Take our kid, we can't do anything with him, maybe the Army can. We want him out of the house,'" says J. Glenn Harden, an Army recruiting sergeant. "We don't take them much anymore."

Who goes in? Private Brad Reymann did. He's 19 and gave up a \$17.54-per-hour electrician's job in Deer River, Minn. to join the Army. Pausing from parachute training at Ft. Benning's Airborne course, Reymann said, "I'm going to take a four-year course in electronics. Then I plan on getting an engineering degree. This way, I'll come out of the service a full journeyman, and I'll learn how to work a computerized switchboard."

Again and again, recruits cite the educational and self-improvement aspects of military service. At the Marine Corps' Parris Island, 18-year-old Marine Private William Butler said he had given up a safe job at the Social Security Administration near Baltimore so he could make enough money to return to Catonsville (Md.) Community College to study mathematics. Meanwhile, said Butler, if he likes the Marines he can stay in.

Dr. Jerald Bachman of the University of Michigan's Institute of Social Research says his surveys show that high school seniors now rate the military higher than public schools. Is the educational establishment listening?

Nor is patriotism to be ignored in the changing attitude toward the military. At Ft. Benning, parachutist trainee Elvira Hall, a Tuskegee Institute ROTC graduate, says, "I wanted to serve my country and be all I could be." Military advertising is capitalizing on the new mood. Says General Maxwell Thurman, the Army's top recruiter until becoming vice chief of staff in June, "By taking youngsters inside the tank in our advertising, you show them the solid-state computer and laser range finder. The higher tech you appear to be, the more relevant your profession appears to be to civilian opportunity." Ted Regan, N.W. Ayer executive vice president in charge of the \$35 million Army broadcast and print campaign, says, "We married the kids' interest in high technology with the Army's ownership of high tech." Meanwhile, many of the military's 2,200 recruiting stations are moving from the central cities to the suburbs where better high schools are found. It's part of the plan to steady the number of black and female recruits and improve quality.

It's not that the military is anti-

black or anti-women. But too high a proportion of blacks in combat units could lead to lopsided casualties in war. The women are excluded from combat, so a too high proportion would reduce fighting effectiveness.

Money talks, too. Service in combat arms outfits is more desirable now since it pays \$5,000 to \$8,000 as a cash enlistment bonus, \$574 month-

year veteran Sergeant First Class Tommy James, "Now a soldier asks why, and you must give him an answer." At Parris Island, Marines go on forced marches with full battle gear from the ankles up but wearing pastel running shoes. Navy recruiter Paul Dudley says fancy electronic gear on shipboard draws inquiries, but before new seamen sign on "they want to



Molding leathernecks on drip-dry obstacle course

"Now a soldier asks why, and you must give him an answer."

ly, and provides access to the Army College Fund, a contributory scheme in which a recruit gets up to \$5 for each \$1 deducted from his or her paycheck. A three-year hitch can be worth \$20,100 for college, plus \$34,272 in salary and benefits.

While discipline has not been relaxed, it has been tailored to suit a more skeptical generation. Says 18-

know if we have Nautilus equipment so they can stay in shape." The Navy is putting the equipment aboard.

In 1978 Jane Fonda made millions with an antimilitary film, *Coming Home*. This year *An Officer and a Gentleman* is a big winner. In it the Navy turns a rootless delinquent into a decent man and a worldly success. It's a different world out there. ■

The Air Force could save big money by using only one supplier of fighter engines. So why is it using two?

Jet wars

By Howard Banks

RECALL READING A FEW WEEKS ago about the outrageous prices the military pays for spare parts? United Technologies' Pratt & Whitney subsidiary was little or no worse than other defense suppliers, but was named one of the big villains. That was no accident but just another scene in the great engine war. The characters are Pratt, General Electric and the Air Force. The stakes: about \$30 billion in contracts over 10 to 15 years. And since the Air Force wants to pass some of those contracts to GE, it is no surprise to find stories from Washington criticizing Pratt's prices.

Pratt owns the existing contracts to supply F100 engines for the nation's two front-line fighters, the F-15 and the F-16. But there's a new contract coming up for \$8 billion-plus and the Air Force wants to push some of that to GE and have two engine types, not one, for updated versions of the F-15 and F-16 fighters.

The Air Force will need 2,400 engines over the five years 1985-90, costing around \$7.5 billion in 1983 dollars. It also wants about the same number for the five years thereafter. Spare parts and training add around 10% to a contract in its first year or two and at least double it over ten years, which adds up to \$30 billion by 1995. That's not all. The Navy wants a new engine for its F-14 fighter, and the present Pratt TF-40 has a little stalling problem. GE is desperate for this order, while Pratt wants to sell an improved version of its old engine.

There's more: Giving GE a slice of the new fighter engine business could affect the B-1 and Stealth bomber programs. GE's F404 fighter engine (now used in the Navy F-18) derives from the

B-1 engine. The original bomber engine needs improving but the \$1 billion or so that it would cost would never fly through a Congress split on the B-1 anyway, let alone for an as yet mythical aircraft like Stealth. Piggybacking that development on a new fighter engine program would hide the cost.

Of course, there are those who think the Air Force plan to have two engines for its fighters is a financial disaster, and both congressional and Defense Department studies are expected to say just that.



Assembling the Air Force's F-16s
Will the new ones be GE-powered?

Why is the Air Force acting this way? Essentially because it did not want to be at the mercy of a single supplier. Pratt's F-100 engine is a hot performer, but the early versions were fragile and prone to stalling—bad on the twin-engine F-15, disastrous on the single-engine F-16. Partly this was Pratt's fault, partly the Air Force's, since engine specifications changed as things went along. The Air Force was once frightened that both its first-line fighter fleets might end up parked for lack of working engines.

Instead of bending over backwards to placate the Air Force generals, Pratt's attitude was: "We know best." When the angry Air Force first threatened to cut GE in on the business, Pratt changed its managers and attitude. Bob Carlson, now Harry Gray's nominated successor at United Technologies, took over Pratt and offered the Air Force a fixed-price deal and performance warranty that Pratt valued at over \$1 billion for five years.

"Pratt's offer was a good one," one GE executive told FORBES. "It didn't come about because they were nice, you know, and they wanted to cut their profits. They put it in because there was competition."

As a result, Air Force officers expect the same competitive price-cutting that occurred over fights to power Boeing's 767 airliner and the European A310 Airbus, where 40% discounts were common for a time. One Air Force lieutenant general said of Pratt's rejected warranty: "We do not think that they offered all they could afford in their first shot."

The Air Force claims that the anticipated cuts in the purchase price will more than offset the increased cost of owning and operating two types of engines in the field.

Contradicting these claims are estimates that Pratt & Whitney worked out with Air Force procurement people, suggesting that two engines would add \$4 billion to \$6 billion over the 20 years these engines will be in service. "It's an absolute impossibility that two engines will end up cheaper than one," Carlson once said before he decided to remain silent rather than offend the Air Force.

No, the Air Force can't justify economically two different engines for its fighters, no matter how it twists the figures. But there's a strong case for what it plans to do. Splitting the business sends a sharp message to all military suppliers not to take contracts for granted, and that's a lesson worth the price. ■

A real estate glut? You would never know it from the prices Angelenos are asking for rentals during the Olympics.

City of dreams

By Ellen Paris

A LOS ANGELES real estate agent eases her big Mercedes away from the drab, \$1,970-a-month, two-bedroom house. "You won't find many good rentals in Los Angeles now," she tells her grumpy client sweetly. "Everyone's holding out for the Olympics."

Ah, Los Angeles, city of dreams. Just when high interest rates and absurd prices had finally killed the house's ability to generate endless wealth for its owner, along comes hope in the form of a projected Olympics-induced bedroom shortage. The Los Angeles Visitors & Convention Bureau estimates that 700,000 strangers will be in Los Angeles for the XXIII Olympiad Games between July 28 and Aug. 12, 1984. There are about 65,000 hotel and motel rooms in Los Angeles County.

Suddenly, every Los Angeles homeowner thinks he can become a hotelier for a month. In the last few months several Los Angeles real estate agencies have set up desks specializing in Olympic Games rentals. A number of these agents now claim to have between 400 and 500 listings each, at prices only a southern Californian could believe.

Examples:

For \$500 a day you can rent UCLA Professor Jeff Alexander's four-bedroom home in a good section of Pacific Palisades. Alexander doesn't have a pool or hot tub, but your \$500 a day does get you a deck and ocean view.

A bit upmarket from Alexander's house is Carol Connors' three-bed-

room-with-pool home in Beverly Hills. Connors, who co-wrote the theme song for *Rocky*, has accepted a \$25,000 offer for one month's rent.

If you want to go all the way, real estate broker Stan Richman has a two-acre, walled Beverly Hills estate, which he asserts is worth \$200,000, for Olympics month. That's \$833 per bedroom per day.

The above prices are gross. Most Los Angeles real estate agents have agreed to take a standard

ing for an Olympics windfall. Zev Yaroslavsky, a Los Angeles city councilman, has recently moved to place a moratorium on all discretionary evictions from January to Aug. 31, 1984.

In some cases renting a house for the month doubtless makes sense. The Netherlands Press Association, for example, will have five journalists in town for the duration of the games. Rather than rent three \$125-a-night hotel rooms, the NPA has rented Don Duncan's four-bedroom Glendale home for \$7,700, or \$350 a night. It's a good deal for the landlord, too. Duncan, a high school principal for whom journalists' antics are nothing, had planned to renovate his house. So he doesn't care much what the journalists do to it during the month.

In any event, the likelihood of cigarette burns and smashed furniture has clearly been factored into the asking prices. Mark Bloome has his contemporary three-bedroom Brentwood

home—complete with pool, Jacuzzi, big-screen television set and steam room—up for rent at \$100,000 for Games month. Bloome says he will negotiate, but not much: "Unless I get a decent price," he explains, "it's not worth the risk."

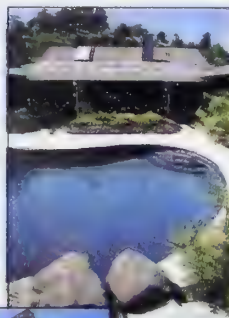
Many would-be landlords have convinced themselves that security deposits—normally one-third of the rental amount—and extra homeowner's insurance will adequately compensate them for damage. But the main compensation is satisfied greed.

"I love my house," says *Rocky* songwriter Connors. "I love my gold records. I love my Lalique. But I love the money more." Connors says she might buy a new car with her proceeds.

Will all but a handful of Los Angeles' would-be landlords actually rent their homes? The answer, of course, is no. Most individuals' tickets to the Games are being awarded on a first-come, first-serve basis. The results won't be known until the fall.

Corporations, especially those that contributed generously to the Games, will get plenty of tickets. They can perhaps justify (and certainly deduct) one month's exorbitant rent. But there are not enough such corporations to make even a small dent in the thousands of houses on offer.

But that's only economic reality. Los Angeles remains the city of dreams, especially where residential real estate is concerned. ■



Olympian accommodation
\$10,000 a month (lower),
\$200,000 (center),
\$100,000 (upper)

25% commission on the business, although Merrill Lynch Realty is asking 20%. No one should be surprised at commission discounting.

The Olympics real estate greed seemingly knows no bounds. According to *Variety*, actor Timothy Patrick Murphy (he plays Mickey on *Dallas*) and 49 apartment co-tenants in posh Westwood have received eviction notices from their landlord, who is look-

Like Secretary of the Interior Watt, many American Indians think that their people should become more self-sufficient. But how? And with what?

America's oldest minority

By James Cook

WHAT SHOULD THE NATION'S policy be toward its 1.4 million Indians, the U.S.' oldest minority? At one time the idea was that they should be assimilated into the general population and their reservations dissolved. At another they were supposed to be turned into yeoman landowners, winning their survival from some of the poorest agricultural land in the U.S.

Their status has generally shifted with the fashions of the times. And these days the policy as enunciated by Secretary of the Interior James Watt and the Reagan Administration is, not surprisingly, "self-sufficiency." That's a commendable goal, but the odds against it are overwhelming.

Take the nation's largest Indian tribe, the 165,000-member Navaho, who occupy a 24,000-square-mile reservation in Arizona, New Mexico and Utah. Last year the Navaho got a new political administration, the first in 12 years. In November's tribal elections a onetime school teacher and head of the Navaho's federally funded legal aid organization, Peterson Zah, 45, scored an upset victory over the tribe's nationally known chairman, Peter MacDonald. Zah came to power, as MacDonald had 12 years before, determined to get a better deal from the dozen energy companies operating on the reservation.

In the Sixties and Seventies, as various resource projects came into production, the Navaho's resource rev-

enues did rise sharply and MacDonald did renegotiate royalties on at least one big coal contract. MacDonald also organized 37 resource-holding tribes into the Council of Energy Resource Tribes (CERT) as a means of getting a better deal from the energy companies. And while the oil shortage lasted, CERT was a force to be reckoned with.

But deflation in natural resource prices has reversed many of these gains. Last year the Navaho's uranium royalties virtually disappeared, while their oil and gas revenues began to decline. Although the tribe's overall resource income hit a record \$65 million last year, it did so only because of nonrecurring compensation

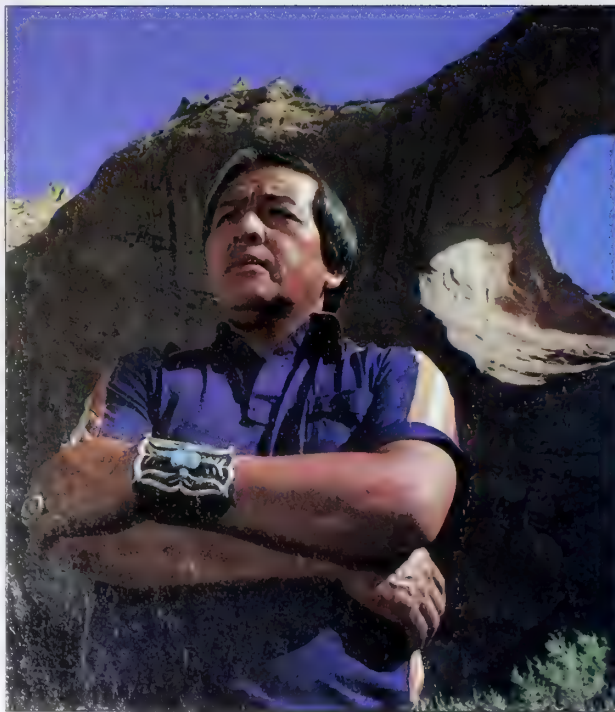
from a land claims case. This year resource income is likely to fall back to \$55.8 million, and the tribe's 1984 revenues should be off even more.

So how does Zah propose to reverse the decline? By squeezing better deals out of the energy companies. As he likes to put it, the Navaho get 29 cents a ton on average for coal—and pay 45 cents a can for Coca-Cola. Zah may not have much leverage renegotiating existing contracts, but he is certain to hang tough on new contracts or on renewals of old ones. Utah International's coal mines at Four Corners are up for review this year, and Peabody's will be at Black Mesa next year. "If they want to stay where they are," Zah says firmly, "they have to cooperate with us. We cannot continue to allow energy companies to pay us 12 and 25 cents a ton for our coal. The tribe needs some money."

Zah concedes, however, that the tribe has not always used its money in the best way. Like most other Indian tribes, the Navaho view their resource income as a sort of long overdue return on their heritage of the land. So the proceeds have gone, not into productive investments, but into various forms of income supplement, including salaries for the reservation bureaucracy. You can't blame the Indians: The entire U.S. is guilty of similar indulgence today. Still, the Indians would be better off if they had accumulated some capital.

But resource income isn't everything. By 1981 the Navaho were getting close to \$550 million a year from the federal government. The Reagan Administration's budget cuts have reduced that by \$150 million, or nearly 30%. Gone is the funding for at least 10,000 jobs, and Navaho unemployment has risen from 50% to 80%.

Zah doesn't disagree with the Reagan strategy of self-reliance in principle. But the principle, he says, just doesn't apply to the tribes. "We don't have the people that Reagan is calling on—private sector development, business people—to pick up the slack." He cites legal services that the Administration would stop funding altogether. There simply isn't enough of a legal establishment on the reservation to pick up the burden. Local lawyers in nearby communi-



Navaho Chairman Peterson Zah
Trying to create an income-generating economy.

ties are busy fighting the Navaho themselves.

So, Zah and his five-month-old administration are trying to rethink the tribe's whole economic development program. The problem, as a recent tribal economic report concluded, is that "we have failed to create an income-generating economy. . . . The economic dependency on the outside economy has been increasing."

Zah talks about the possibility of attracting corporations to the reservation with wage rates he believes could compete with those in the Third World. This is a possibility that suggests just how badly off the Navaho may be. Zah wonders why an Atari shouldn't come to the Navaho reservation rather than go to Southeast Asia. He points out that General Dynamics opened a rocket components plant on the reservation five years ago and is now talking about expanding.

However, Fairchild Camera & Instrument Corp. operated a plant on the reservation some years ago and then one day walked away from it, putting 300 people out of work. Aware of this, Zah muses: "We've been putting our emphasis on big corporations, but maybe we'd be better off concentrating on smaller businesses. A lot of them could generate as much employment as a single large company, but it wouldn't leave us so vulnerable if one should close."

With 60,000 jobless on the reservation, this is the biggest problem facing Zah. Using tribal funds and local materials, Zah would like to set up small industries, both cottage- and factory-based, in wool, brick and tile, leather, wheat, matches, furniture and cement. He talks of developing the reservation's tourist potential, but this would involve legalizing alcohol.

All this requires capital, but fortunately new sources of funds are beginning to appear. The Supreme Court recently upheld the right of the Jicarilla Apache to impose severance taxes on oil and gas produced on their reservation, and Zah wants to impose a severance tax of his own. But somebody will have to give. The states in which the reservation lies have severance taxes of their own, and they're not likely to give them up willingly.

The Navaho have also enacted two taxes on their own, both currently before the courts. These are a possessory interest and a business activities tax. Zah hopes soon to enact a gross receipts sales tax as well. But he concedes that the same old problem remains: how to prevent a misguided populism from channeling the proceeds into consumption rather than

into investment. "Not all the money will be used for government operation," one aide insists. "It will be used for investment in our own businesses, in our own banking, our own energy companies, our own financial programs for small business people." But this remains to be seen.

The Navaho educational level is the poorest of any tribe in the U.S., averaging something like five years.

But the tribe is nonetheless making progress. It now sends 2,000 students to college every year, and more of them are coming back to live on the reservation and work at solving the Navaho's problems. Says Zah: "People have a misconception that the Navaho are tied to the past. That's a misconception. We are changing. At the same time, our roots are still tied right here on the reservation." ■

The computer software industry is up in arms over piracy. But the laws of the marketplace might solve that problem.

Pirates versus piranhas

By Kathleen K. Wiegner

GEORGE POLLOCK admits he wouldn't know a byte if it bit him. But he understands markets, scores of which have been created by the microcomputer boom. Pollock: "When you go into a store to buy a computer program, you get five minutes with the dealer and a pat on the fanny. If you don't like the program, too bad. You can't take it back." So in February Pollock opened United Computer Corp. in Culver City, Calif. Concept: rent software. For 15% to 25% of a program's list price customers can take a program home from Pollock and try it out before buying.

Good idea. So good it might be illegal. On June 17 MicroPro Inc., a San Rafael, Calif.-based software company, filed a lawsuit against Pollock for \$50,000 for each copyright violation, plus \$10 million punitive damages. MicroPro produces the word processing program WordStar, which has sold over half a million copies (\$4.95 retail). MicroPro's allegation: that by renting out WordStar, Pollock is inducing otherwise honest citizens to copy the program and deprive MicroPro of its due.

MicroPro's suit is helping to open a Pandora's box of complex but fundamental legal issues. Among them: Who owns a program? What exactly is



United Computer's George Pollock
A good idea that may be illegal.

software piracy? Should a businessman be proscribed from copying or modifying a program? And what if his business grinds to a halt the minute an important program is lost, mutilated or stolen?

The pirates are probably not the mafioso type that invaded the record industry a few years back. They tend to be regular folks, people who think nothing of photocopying a few pages of FORBES or taping a favorite film on their Betamax. Perhaps the most avid

pirates are teenagers who trade computer games with pals across town and across the country on the growing number of "electronic bulletin boards" (see box). Daniel Remer, an attorney and author of *Legal Care for Your Software*, likes to make the distinction between pirates and piranhas: pirates steal for profit, piranhas bite for pleasure.

As any computer-literate teenager will tell you, copying a program is sinfully easy. All you need is an original program (or copy), a computer (any computer) with a disk drive, and a \$4 blank disk. Once the original program is loaded into the computer, copies can be made on that blank disk. The copy will be exactly like the original, right down to the program's (violated) copyright mark. No loss of quality here, unlike photocopying books or videotaping films.

It was Congress that opened one of the doors to piracy. When Congress passed the 1980 Software Copyright Act it granted the lawful purchaser of a software program the legal right to make a backup copy for "archival" purposes. The intention was to protect the user in the event the original program was damaged or lost. But once a user knows how to make one copy, how can he be prevented from turning out 10 or 20?

However, software can be coded electronically so that the computer will be unable to make a copy from the original. In the trade this is called "copyprotecting," or "locking" a program. It is as if you could develop a printing ink that would disappear whenever a page was placed into a photocopier.

So why aren't all programs locked? Some business programs, like accounting, are so critical to running a business that no savvy manager would use them unless free to make backup copies. Rather than producing locked programs and providing backups—which can be expensive and cumbersome—many manufacturers of lower-priced products have so far opted to allow users to make their own backup copies.

In any case, it is by no means clear how effective locking can be. The same intelligence used to create locked programs can be used to unlock (or "break") the copy protection. Software programs that do this are called "nibblers." Like superpower cryptologists, these lockers and nibblers keep fighting for technological supremacy.

"Litigation is not a viable long-term solution," argues Rick Magnuson, who heads an association committee

on copyright protection and who favors copyprotecting software. In the end, however, a large part of the problem may solve itself. The software industry right now is moving away from a highly fragmented market dominated by enthusiasts toward becoming an important business tool as well as part of the broad consumer products market. Better policies for demonstrations, returns and service

will make some piracy unnecessary. Also, software prices are beginning to fall. That takes away much of the economic incentive for copying. Rather than enriching lawyers with suits like MicroPro's, says Edwin Lee, president of Pro-Log Corp., software-makers "should be thinking about how to design and develop product at a lower cost and then how to find cheaper distribution." ■

Gilded youth, jaded youth

Rick is a screen-wise Los Angeles 16-year-old who asks us not to mention his last name. He owns two computers, an Atari 400 and an Atari 800. He also owns over 200 illegal software programs that he has collected during the last eight months and that, he estimates, are worth around \$9,000. Rick's cost on this game library? Under \$500.

Computer-smart teenagers like Rick are the hope of America's industrial future. But often they are also white-collar criminals, the scourge of software producers and telephone companies. These young pirates collect their booty electronically in the form of new video games and other valuable software. They do so not only by trading with a friend down the street but also via the country's mushrooming networks of so-called electronic bulletin boards, or BBSs (for Bulletin Board Systems)—the high-tech equivalent of the supermarket or college dorm bulletin board.

It works like this: A kid in, say, Chicago starts a BBS. There is nothing complicated about the startup. With the right software, the BBS becomes a communal pool accessible to anyone with its phone number. The kid circulates the number to friends, who pass it on. Another kid in Los Angeles gets the number. He gets his computer to call the Chicago BBS. Flicker, flicker: Whatever is listed on the bulletin board in Chicago is immediately available in L.A.

Take it a step further. The Chicago kid gets hold of M.U.L.E., Electronic Arts' hot new game. He wants to share it—or, like baseball cards of old, trade it—with his friends. He "uploads" (i.e., transfers) the game into the computer's storage and advertises the fact that it is there on the bulletin board. Now the kid in Los Angeles sees

M.U.L.E. is available. If he wants a copy, he simply types in the correct command and the game is downloaded over the phone lines to his own computer. Flicker, flicker. He now owns a \$49 game for the price of a blank disk and just a few-minutes' phone call to Chicago.

If that. According to Rick, the smart kids use their autodialers (gizmos whereby the computer dials telephone numbers at high speed, changing the number until it finds another computer to talk to, as in MGM/UA's brilliant new film *WarGames*). Given enough time, the computer can find the numbers to tap into MCI's or GTE/Sprint's long-distance lines, thereby causing the calls to be billed to another number. Rick claims such calls are not traceable. The telephone company disagrees.

The profit potential of the electronic bulletin boards is obviously enormous. They could, in theory at least, replace newspaper classified ads in a single keystroke. There are already at least 800 verified bulletin boards operating, plus a number of completely underground ones. Bulletin board specialties range from games to science fiction buffs swapping book reviews and articles, doctors exchanging medical information, others even trading X-rated classified listings.

Back to Rick and his friends. Few of them think they are doing anything wrong. Aren't they ripping off business and the telephone companies? Sure, but in Rick's book, big business is fair game. Rick also writes game programs and tries to market them to software publishers. One of his friends recently did, receiving \$60,000. How would Rick feel if someone pirated his program? "I'd be ticked off," he says quickly. —K.K.W.



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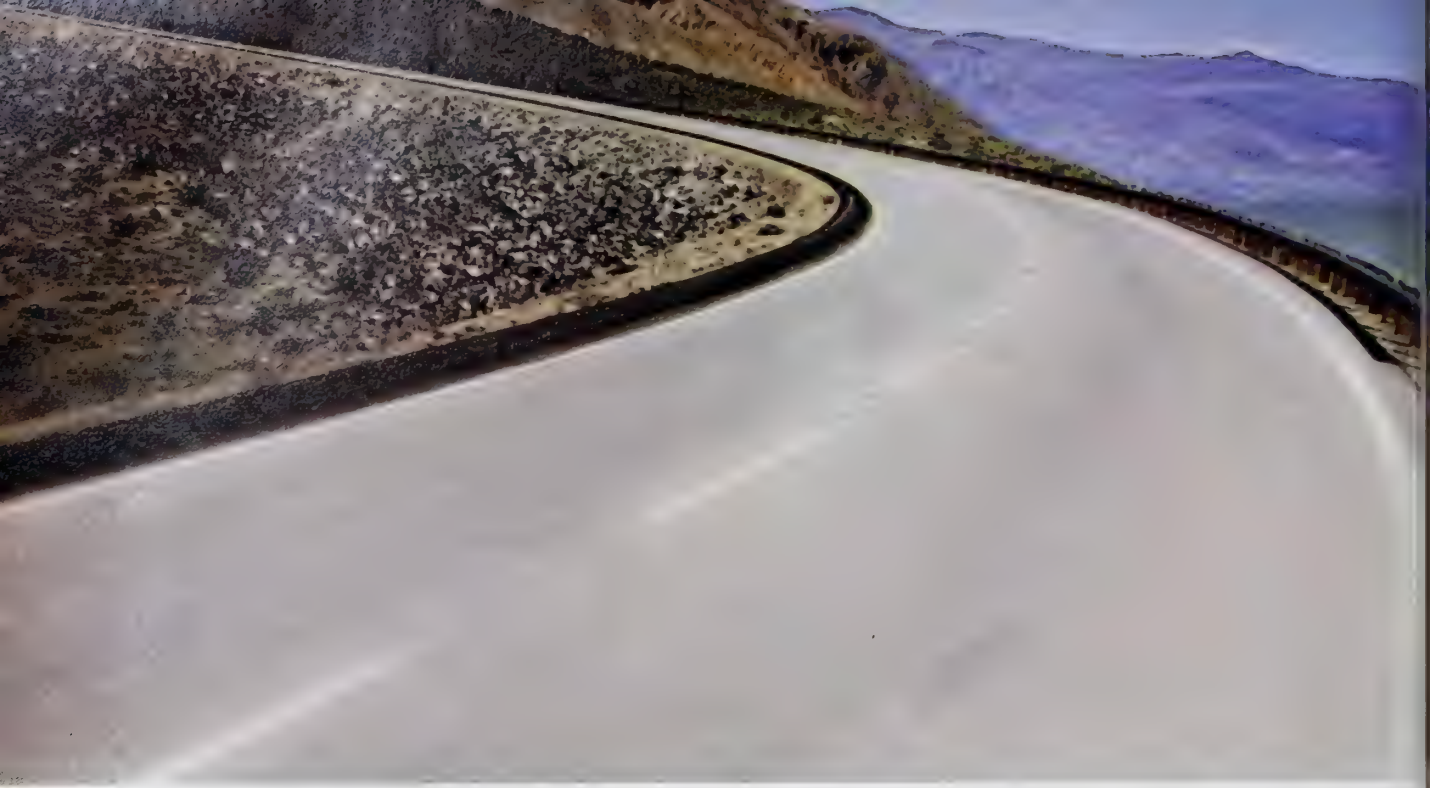
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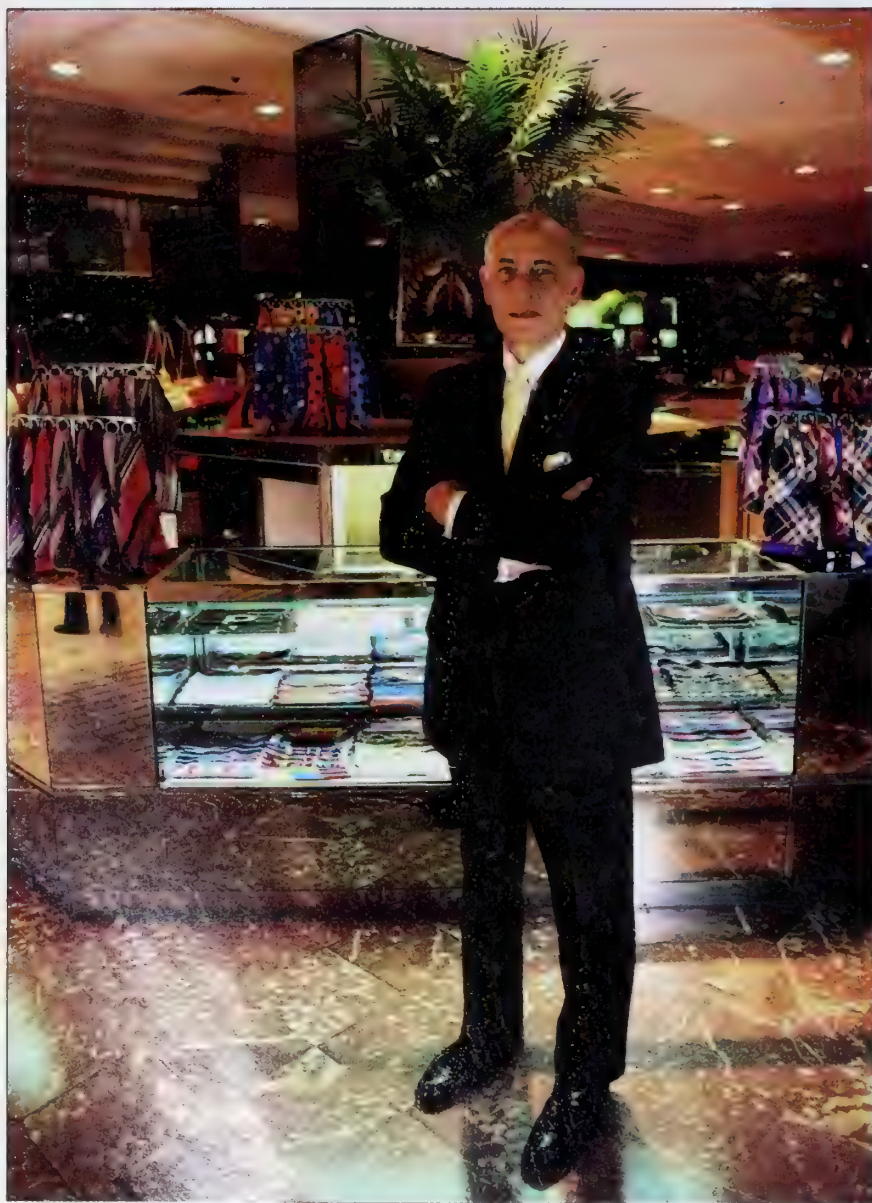
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Tom Macioce's tough, tactical management brought Allied Stores up from the bottom. Can his strategy take it to the top?

Is discounting done for?



Tom Macioce, head of Allied Stores, at Bonwit Teller in New York
Climbing retailing's social ladder.

By Jean A. Briggs

DISCOUNTING IS THE PAST in retailing, not the future. Who says that? Tom Macioce, six-foot-five, lean, spiffy in a well-cut dark suit and 100% sure of himself. He's every inch the man to preside over quality retailing names like Brooks Brothers, Garfinckel's and Bonwit Teller. All these outfits are part of \$3.2 billion (sales) Allied Stores Corp., the nation's fifth-largest department store chain. As Allied's chief executive he's quite content to let the price-conscious customer shop elsewhere. Listen to him:

"Filene's can be the biggest and strongest basement operation in New England, as far as I'm concerned. That's not the market share I want."

Macioce knows that Federated Department Stores, Inc. is happily expanding its Filene's bargain operation, and he's not really predicting the demise of Caldor or Target or Loehmann's. What he's saying is: The future growth and the really good profits lie elsewhere.

That, of course, puts Macioce on the opposite side of the fence from nearly every other large department store chain in the country. Dayton-Hudson Corp. has had its Target stores for years and is now establishing a new chain called Plums, the Elegant Discounter. Federated has its Gold Circle stores as well as Filene's. Associated Dry Goods Corp. bought Loehmann's in May and Caldor's two years ago.

Are they all wrong? It wouldn't seem that way. Over the past couple of years at least, discounters such as Marshalls, owned by Melville Corp., and T.J. Maxx, owned by Zayre Corp., have had sales and profit gains much larger than the average department store's. True, says Macioce, but that is the past. The future will be different. With so many players getting into discounting, a shakeout is inevitable. Competition will squeeze out all the profit just when the economic recovery is bringing consumers back to department stores with their branded merchandise, relatively good service and relatively high prices.

"People do care what label is sewn inside their coat," he says. "If they feel economically secure they will want a better label."

Of course, Macioce realizes that few people will buy merchandise from his stores when they can get exactly the same thing down the street for a good deal less. For that reason, Macioce says he will refuse, to the extent possible, to carry lines

IS YOUR LUXURY CAR CHRONOLOGICALLY NEW, BUT TECHNOLOGICALLY OLD?

One of the ironies of buying a new car is that there's no guarantee the car will be new.

Unused, yes. Unowned, yes.

But ultimately, a car's newness has more to do with the inventiveness of its technology than with the year for which it was made.

A point that is vividly illustrated by the BMW 528e.

THE PRODUCT OF INNOVATION, NOT RENOVATION.

The 528e is the first of a new generation of BMW's, one designed to carry up to 5 adults and the state of automotive technology well into the '80s.

It accomplishes this through engineering unimpeded by nostalgia. Its engine, for example, is not a renovation of some earlier design in the hope of breathing life into it for another year.

The BMW 6-cylinder 'Eta' power plant shares little more than the concept of internal combustion with such cars. It is a high-torque, low-revving engine that churns out exhilarating response with

almost dietetic fuel appetites—combining BMW-like performance with diesel-like efficiency.*

Toward this end, the Eta engine relies not upon chance but upon micro-processors. They read all manner of engine data—air/fuel mixture, throttle openings, etc.—then order ignition at the precise thousandth of a second for optimum performance.

Still, the story of the 528e is one not just of excellent response, but balletic agility. And in the rear, where many cars ride on suspension designs substantially unchanged for decades, the 528e rides on a breakthrough.

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Those, on the other hand, who are interested in a car that's new are invited to a dealership where it's possible to find one.

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from manufacturers that sell to discounters. "We're not going to hold an umbrella over them anymore," he says. Just in case manufacturers don't fall into line, Allied is busy developing private-label brands. So far, it isn't clear whether the manufacturers will comply, but they do seem to be worried. Calvin Klein, for example, says it will try harder to keep its goods out of discounters' hands. Ralph Lauren says that it will unload leftover merchandise in its own outlets far from the department stores.

Whether or not Macioce's decline-of-discounting theory is correct, there's no doubt the onetime Columbia University basketball star deserves credibility because he has done a fine job since taking over at Allied in 1972. At that time, as he delights in telling visitors, "Allied was at the bottom of the heap, the least profitable department store chain. Now it is one of the best." Allied's net margins of 2.8% last year put it only fifth in profitability among the seven biggest department stores, but actually Allied's operating results were better than that would indicate. What dragged down the final net were horrendously high interest costs incurred in buying the coveted Garfinckel, Brooks Brothers, Miller & Rhoads. But the company has now refinanced debt, and interest rates are down.

Macioce differs markedly in style from most other leading retailers. There's a big touch of the showman in many of them, but Macioce is essentially a numbers man. He says he simply applied management techniques, especially tough financial controls, long used in other businesses. "There's more to retailing than just buying and selling," says Macioce, who is probably the only CEO of a major American department store chain never to have run a store himself. His background is in finance (he joined Allied in 1960 as vice president of finance) and he still seems to enjoy personally keeping an eye on sales, operating profits, inventories and expenses of every department of every major division. For the past six months he has been able to punch up the numbers on a Wang computer terminal behind his desk. He does so with gusto every workday.

His critics say Macioce stifles retailing creativity by his strict adherence to the numbers, but the results seem to belie the criticism. For example, there was a great uproar when Allied went after Garfinckel-Brooks, but the outfit has prospered and its reputation remains intact.

His essential strategy is simple

enough. The old Allied consisted of a ho-hum, middle-of-the-road group of department stores that had neither a price image nor a quality image. These included such chains as Jordan Marsh, Maas Brothers, Stern's, Joske's. Under Macioce, Allied has, since 1977, encouraged these stores to upgrade their merchandise and add a more affluent group of customers to their base. And it has acquired retailers with a strong quality image. Part of the strategy involves watching carefully what Ann Taylor's or Bonwit's trendy customers are buying and then rushing similar merchandise into the older stores. Allied executives observe, too, what Brooks Brothers' conservative customers buy and stock the other stores accordingly. Right now, Brooks is capitalizing on its image to capture the market for the woman executive who covets the Brooks look.

Macioce's acquisitions have not come cheap. They have cost Allied

\$255 million in total investment, and the financial strain shows. Howard Hassler, Allied's vice president of finance, calculates that the continuing burden of debt incurred in the Garfinckel-Brooks deal penalized 1982 earnings by \$5 million. Last year Allied earned \$90.6 million, or \$4.41 per share. This year Allied, like other major retailers, is showing strong gains and could earn \$5.25 a share for fiscal 1983. However, the burden of debt remains: Allied's \$844 million in total debt now represents 49% of capital, vs. 38% in 1978. The debt will stay high for several years, says Hassler, until earnings build up the equity side of the balance sheet.

Macioce expects to stay around until he has achieved both his marketing and financial goals. Although he is 64, Allied's board has obligingly extended his contract through 1987. By then, the verdict should be in on whether Tom Macioce is as good a strategist as he is a tactician. ■

Like Reggie Jackson in baseball or Roberto Duran in boxing, you may be able to recapture your magic touch. But you can never recapture your youth.

Holiday Inns— the middle years

By Geoffrey Smith

YOU CAN TELL SOMETHING is in the wind out at Holiday Inns' headquarters in Memphis, Tenn. After about 30 years they're changing that green, yellow and orange sign, the one with 426 light bulbs and 836 feet of neon tubing. It spells out "Holiday Inn" in a Fifties kind of script beneath a shining star and a great flashing arrow. In its place at Holiday's 1,733 hotels in the U.S. and around the world will go something almost tasteful: an energy-saving, rectangular green sign with Holiday Inn written in white script beneath a small, subdued yellow-and-orange starburst. The new sign is more than merely symbolic at this

\$1.4 billion (sales) company.

Or so investors seem to hope. They have bid Holiday Inns' stock from 34¼ back in January to a recent 54¾, a fancy 25 times earnings.

Why 25 times earnings for the market leader in a mature industry, whose earnings growth and profitability have been mediocre at best? Investors are betting heavily that, after eight years of hard work, Holiday Inns has successfully made the transition from an entrepreneurially managed company under now retired founder Kemmons Wilson to a professionally managed company under his successors, 41-year-old Chief Executive Officer Michael D. Rose and Chairman Roy Winegardner, 62, a former major franchisee.

The new team is blunt in its criticism of its predecessors, who sold off most of their holdings long since. Says CEO Mike Rose, "We had a senior management team, basically entrepreneurs, who had lost confidence in their business when the 1974 real estate crunch hit. They also had lost control of our franchise relationship. Second, as they had diversified, in search of higher returns, into bus companies and steamship companies, they had started to make a number of mistakes in terms of conception and location of new hotels. Third, they had a lot of hotels that had been built in the Fifties and early Sixties that the market had moved away from. Fourth, their European hotels were losing a lot of money because they were based on an American view of the hotel business superimposed on Europe, which didn't work."

Rose pauses: "When Roy and I came in, back in 1974, we found ourselves wrestling with alligators."

Executive Vice President Jim Schorr, 41, a former detergents brand manager at Procter & Gamble who joined Holiday back in 1975, takes up the refrain: "Our relationship with our franchisees was just terrible. No trust, no mutuality of respect. Here at headquarters there was an enormous arrogance that comes with the kind of success Holiday Inns had enjoyed. So we came in—and it wasn't just Mike and Roy and me, it was hundreds of people—determined to pull this company into the Eighties. We came in with a desire to kick our competitors in the ass, and a desire to win. A lot of our franchisees were quite upset when they saw all these enormous changes that were about to happen."

The bus company, Trailways, was sold to a group of investors that included ex-Greyhound Lines Chief Executive James Kerrigan for \$94 million in the fall of 1979. Next went a printing company, a restaurant supply company, and the steamship company, Delta, to West Coast tugboat king Crowley Maritime International, Inc. for \$96 million cash at the end of last year.

There also were acquisitions and, with them, turmoil. One acquisition was made in 1979: then \$80 million (sales) Perkins pancake-and-steak chain, which has since gone nowhere despite stem-to-stern shakeups. The 1980 acquisition of the then \$196 mil-

lion (sales) Harrah's casino business has turned out far better and now accounts for a third of assets and contributes a third of Holiday's profits.

Meanwhile, pruning of the older franchise operations has been downright drastic: Old Holiday Inns have been losing their franchises at the rate of about one a week, as minimum operating standards have been raised each year. So drastic was the pruning that, even with 569 new hotels in the past eight years, there has been a net gain of only 45 in the number of Holiday Inns.

However, the new team did not neglect operations. Here they reversed Kemmons Wilson's old strategy and began to move the chain upmarket. Rose says: "I learned that quality is

year, at a premium rental, "embassy suites," another upmarket subbrand for the business traveler who stays three or four days, instead of the usual two, and wants a bit more space and comfort.

And that is only the beginning. "Three years from now Holiday Inns will look as different from what it is today as it is different today from 1978," says Jim Schorr. "We'll have new sources of revenue from market segments in the hotel business we don't compete in today."

Meanwhile, defensively, Schorr points out that he can modernize Holiday's midmarket stronghold far more cheaply than most of his competitors can build. "If you're going to build a midpriced hotel today, it's going to cost you \$50,000 a room, and you're going to have a competitor down the street whose name is Holiday Inns, and he built his hotel 12 years ago and he has a cost remaining of \$5,000 a room on his books. Holiday Inns' ability to compete with you is enormous. I can go in and rebuild that Holiday property so it looks brand new, right off the assembly line, with a Holidome [a roof over the pool area] and conference rooms and commercial areas, for \$5 million, and that's pushing it." So the Holiday franchisee would have a completely refurbished 200-room inn for \$6 million, while a start-from-scratch competitor would have to cough up perhaps \$10 million.

Rose is also applying market segmentation to Holiday Inns' gambling business. Says he: "The real key to the gaming business that has taken us a long time to understand is that it requires very sophisticated marketing. A casino customer may spend \$50, or he may spend \$500,000. We don't concentrate our marketing dollars on the high-end premium player. We want the middle-range player."

Rose and Schorr are the first to admit that fully one-third of the Holiday Inns in the country are still below standard in terms of appearance and market viability. But they count that as an asset rather than a liability because it is a lot cheaper to refurbish and upgrade than to build from the ground up. The people running Holiday Inns, in short, are concentrating on profitability rather than on growth. And the stock market, by according the stock a 25-times multiple, is betting they will achieve it. ■



Holiday Inns President Michael Rose
"Wrestling with alligators."

much more important than cost—a very different focus than Kemmons Wilson had. Kemmons' whole concept was: 'Build it cheaper. Be the low-cost producer.' He was right for a long time, but in a more competitive environment it didn't work because there were people with yet lower costs out there."

Holiday Inns decided, therefore, to adopt a kind of General Motors-P&G multiple-brand approach to marketing. "We felt we had let our brand ramble over too broad a price range," says Rose. Earlier this year it introduced the Crowne Plaza chain, and proposes to rename and build or refurbish some 40 hotels for the top 5% of the Holiday Inns market. In some ten new sites, it will begin offering next

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Why are tuition bills taking such a big bite out of your budget? Look at the way endowment fund managers are pussyfooting around the great bull market.

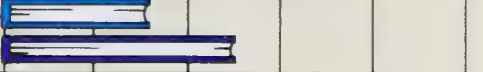
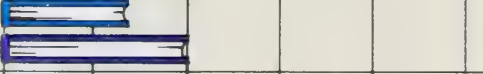
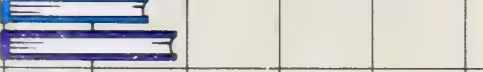
Campus cop-out

Better to sleep well than eat well?

Champagne toasts at the university club would seem to be in order. The ten largest endowments average an over-40% appreciation for the 12 months ending June 30. But before draining the bottle, it should be a sobering thought to fund managers that the S&P's 500 index was up 61%.

1981-82

1982-83*

Institution	Endowment (\$billions)					% Increase
	0.5	1.0	1.5	2.0	2.5	
Harvard University						40-45%
University of Texas system						30-35
Princeton University						42
Yale University						45
Stanford University						45
Columbia University						18
Massachusetts Institute of Technology						45
University of Chicago						43
Northwestern University						51
Rice University						39

*6/82 to 6/83 figures are estimates

Sources: National Association of College & University Business Officers (1982 figures); universities (1983 figures)

By Richard Phalon

EVER SINCE THEIR stock portfolios took a drubbing in the great market break of 1973-74, many college endowment fund managers have cast equities in the same rowdy milieu as rugby players: It's nice to have a few around to add a bit of dash to the trustees' Christmas party, but not so many that you have to worry about broken furniture.

The caution shows in the numbers. There are 218 endowment pools tracked by the National Association of College & University Business Officers with combined endowments of almost \$17 billion. In the nine years ended in June 1982 their investment managers cut their stock holdings by 25%. Bond holdings, on the other hand, increased by nearly 20%.

The caution shows in the performance figures, too—and shows unfavorably. According to NACUBO's most recent report, in only four of the nine years since the great rout of 1974 have the 218 endowments done better than the stock market as a whole. The shift into fixed income wasn't much help, either. In only four of those nine years did the endowments do better than the bond market. Worse, the universities as a group failed to keep up with inflation.

At some well-heeled universities—Harvard, for one—endowment income can cover as much as 23% of the operating budget. Thus, the failure of many financial officers to wring maximum returns from donations of loyal alumni is one of the reasons tuition bills at most private colleges—a freshman at Yale pays \$9,050 a year, for example, and even at Notre Dame an undergraduate pays \$6,450—have gone through the roof.

With university costs rising on all fronts, the incentives for sharper investment performance could not be clearer, and many universities are working very hard at reshaping their portfolios. The fact remains, though, that more than three-quarters of the 218 investment pools followed by the business officers association were less than 65% invested in common stocks on June 30, 1982, on the eve of the great bull market that has pushed the average to record highs. More than a third had less than half their money invested in stocks. Even when it finally became clear that stocks had really taken off, much of academe was too rooted in timidity to respond. The final numbers for the fiscal year ended this June 30 won't be out for months (see chart for estimates). At a quick glance, the numbers don't look bad,

Staying with the oils

The oil price blowout caught a number of college endowment money managers flat-footed. A quick sampling finds Rockefeller University carrying large blocks of Exxon, Mobil, SoCal and Standard Oil of Indiana. The University of Pennsylvania recently had 30% of its equity in oil.

John B. Neff of the Windsor Fund, the chairman of Penn's investment board, candidly admits, "We have labored with that oil position." Neff has averaged down on the oil stocks in the hope of taking advantage of any turnaround in the market.

The most vulnerable of all to oil price fluctuations is the University of Texas system. Its \$2 billion endowment, second only to Harvard's, includes nearly a million acres of oil land. That resource pumps over \$150 million a year into its endowment. UT's oil royalties are down some 15% from the previous year. An even bigger effect has been felt because of a drop in bonus payments from auctioning off drilling rights. Even the ultraconservative financial trustees of UT realize it might be a good idea to do some secondary diversifying out of oil these days.—**Jon Schriber**

but this kind of bull market pulls everybody up. The fact remains that few of the endowments did as well as the popular averages and virtually none of them beat them. It may well be that the endowment fund managers will turn more venturesome in the months ahead. At the moment, though, experts like George F. Keane, president of the Common Fund—which provides investment management for more than 300 schools—have spotted "no big move in terms of stock allocations." John Packard of Scudder, Stevens & Clark's asset management group concurs: "I don't think the change in equity positions overall has changed much more than 5% to 7%."

Part of the problem is that many of the funds are oriented to current income, a reflection of the generally losing battle with rising operating costs. The need for jam today tends to push endowment managers into bonds or high-yielding but slow-growth utilities in periods when the smartest play might be elsewhere. In all too many cases, the Prudent-Man rules that bind college trustees seem to be merely a synonym for risk aversion. In terms of the old Wall Street saw, many college trustees would clearly rather sleep well than eat well. Yet experience shows that caution is not necessarily the best policy. In general, the best long-term performances have come from big, heavily stock-oriented endowments whose objectives are a "total return" blend of capital gains and dividend income.

Some of the best numbers came from an endowment that has long since broken out of the traditional mold—the University of Rochester. The university had a big leg up, it's true, gifts of Eastman Kodak from the hometown wizard George Eastman.

Given the respectability of the stock (and the low 1930s prices at which it got the stock), Rochester could easily have fallen into the same trap as Atlanta's Emory University.

The latter has never sold a share of the big Coca-Cola benefactions that now account for about 60% of its \$400 million portfolio. Emory's Coke dividends kept rising, but there were long periods when the stock did not.

Rochester trustees, on the other hand, over the years began to realize the potential dangers of the one-egg basket. Profits from the sale of some EK went into the stock of still another local up-and-comer, Xerox. As recently as 1971, according to Paul Lewis, investment vice president, Kodak and Xerox together accounted for about 50% of the university's endowment, but under a carefully tailored diversification plan Rochester sold off the last of the Xerox stock this winter. Kodak has been cut to the point where it accounts for only 3% of Rochester's \$650 million endowment.

The results: Rochester's endowment fund has increased in value 65% from this time last year. All that growth has come from an unabashed

decision to take the risks that accompany long-term growth. Rochester's portfolio is chockablock with dandy little items like Apollo Computer, Inc., Convergent Technologies and MCI Communications.

Hand it to the Rochester boys: They are pragmatists, not dogmatists. Far from being permanently wed to small-growth stocks, they recognize that the market moves in cycles. Phil Horsley and Kevin Keogh, who manage the venture side of the Rochester portfolio, definitely think this might be a good time to take and recycle some profits.

So do Stanford, Princeton and Dartmouth, among others, which have also moved more aggressively into stocks over the last several years. As usual, however, the herd is late in catching on. On past form, by the time other trustees discover there is money to be made in equities, the market will once again have passed them by. ■



Rochester endowment managers Kevin Keogh, Paul Lewis and Phil Horsley
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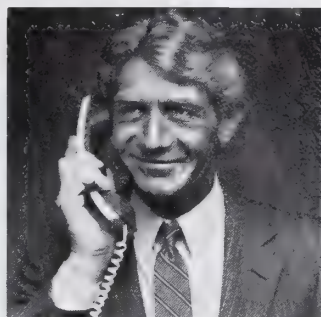
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Larry Liebert put his best foot forward building sales for his computer-room support line. Better he should have bought a few more computers.

If you can't make it, you can't sell it

By Jill Bettner

THERE'S NOTHING more frustrating than getting into trouble, not from lack of business, but from an inability to fill orders. That happened last fall to Larry Liebert, the 37-year-old president of Liebert Corp. Liebert makes computer-room support systems that watch temperature, humidity and power supplies. The orders were pouring in, but he couldn't fill them because he was having computer problems of his own. Installing a new \$700,000 internal "management information system" cost the Columbus, Ohio manufacturer two weeks' production.

Result: Earnings per share for the first quarter of the current fiscal year, the three months ended Dec. 31, failed to increase for the first time

since the late Seventies, staying flat at 14 cents. That's not the way a high-flyer is supposed to act, but that's the kind of thing that often happens in the real world, even to true growth companies. Over the past decade, high-powered marketing made Liebert the dominant U.S. manufacturer of computer-room support systems, but "we were doing a balancing act," admits Liebert, between building a sales force of 500 (the company calls them "associates") and keeping up on the manufacturing side.

It was perhaps inevitable that Liebert should suffer growing pains. The company was started in the late Forties by Larry Liebert's father, Ralph, as the Capitol Refrigeration Co. While the elder Liebert, 64, remains chairman and chief executive, son Larry largely runs the business. It is

he who turned the maker of specialized refrigeration units into a state-of-the-art high-technology outfit.

In making the transition, the niche the Lieberts chose for themselves was in modular, self-contained, "environmental" conditioners. These control air cleanliness, temperature and humidity, and can be moved wherever needed. Today analysts estimate the size of that market at \$250 million and give Liebert a 35% share. Its closest competitor is AC Manufacturing, with about 15% of the business.

Liebert also began making computer-room power conditioning equipment in the late Seventies. This is an estimated \$400 million market that was formerly dominated by Topaz, which was acquired last December by electrical giant Square D. But in February Liebert readied itself for battle by buying the power supply division of Franklin Electric for \$8.8 million in cash and stock. The Franklin acquisition added to Liebert's product line uninterruptible power supply systems. These provide short-term backup when power outages occur until computers can be shut down in an orderly way or switched over to a local generator.

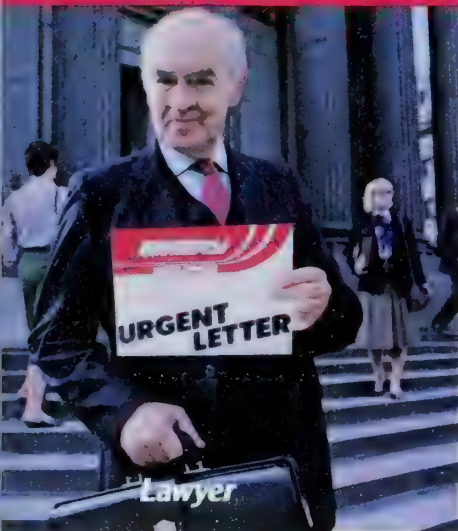
Two years ago this old family firm went public, taking advantage of the public clamor for growth stocks to acquire equity capital cheaply. It sold roughly one-quarter of its stock to the public, which paid 23 times earnings and 5 times book value for the privilege of owning a piece of Liebert. A large chunk of the proceeds from Liebert's recent stock offering, roughly \$10 million, will go into new plant and equipment. A new factory for power conditioning systems began operating in nearby Delaware, Ohio last summer. The company opened a second new plant in March in Ireland, its first venture into overseas manufacturing. In the future, there should be fewer interruptions like the one that nicked earnings last winter. The new plants have nearly doubled manufacturing capacity, to 620,000 square feet. Robots now complete some tasks in one shift that used to take three. An automated metal-forming transfer system that makes exterior panels for some Liebert products has increased production sevenfold, its young president says.

In a high-technology business, Liebert, trained in engineering, is essentially a salesman, a marketing man, an affable type, given to wearing flashy gold rings. But he's learning that what goes on in the factory is at least as important as the marketing strategy. That's a valuable lesson. ■



President Larry Liebert at his firm's new Ohio plant
It's easy for a high-flyer to lose sight of the ground.

Why American Business Trusts Emery.



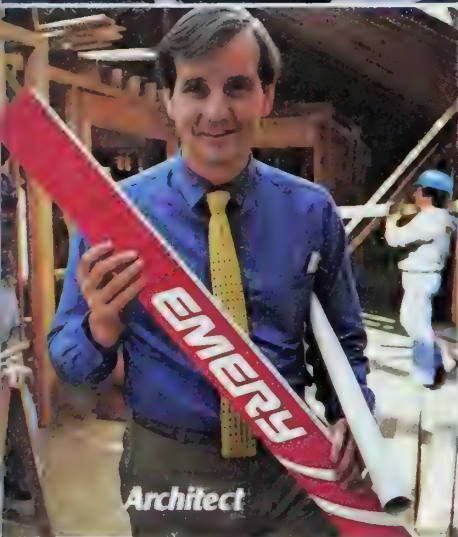
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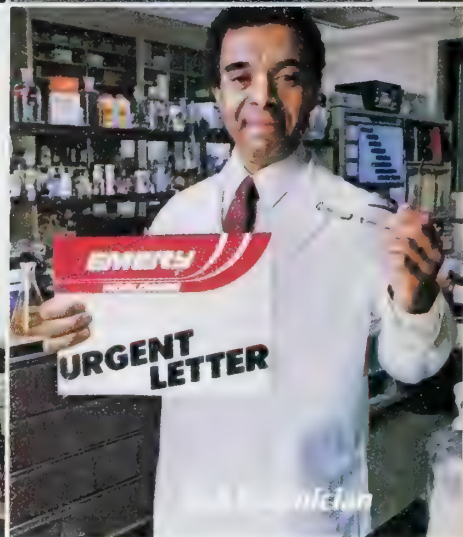
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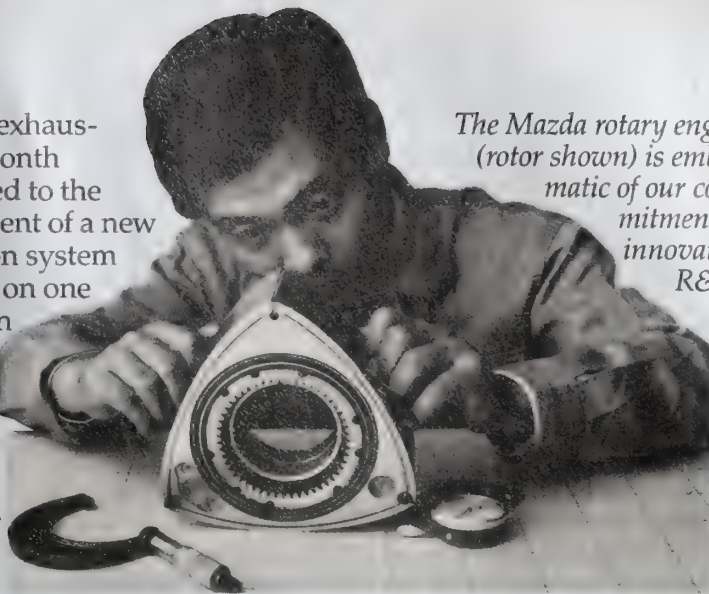
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Central Florida's economy booms, thanks to Disney's Epcot Center and Disney World. But booms bring change.

Comes the Mouse

By Allan Dodds Frank

Roses are red, violets are blue, thank God the majority voted for you. [signed] Goofy."

The rhyme is inscribed on a picture of Mickey Mouse that hangs in Teamsters Local 385, Orlando, Fla. Yes, America, Mickey Mouse, Donald Duck, Goofy and even Minnie are Teamsters. So are characters at Epcot Center, Disney's Experimental Prototype Community of Tomorrow, which opened next door to Disney World in central Florida last Oct. 1 and is already a rousing success, with more than 10 million visitors projected for its first full year.

The Teamsters' 45-to-41 victory in the vote last August to organize Disney World characters like Mickey and Minnie caught hypersensitive Disney officials somewhat by surprise, coming several years after they had defeated efforts by characters to join the stagehands' union. At Disneyland in Anaheim, Calif., characters remain nonunion, but in Florida Disney management quietly accepted Teamster representation. There had already been enough bad publicity from employees—evading the Disney ban on talking to the press—complaining anonymously to reporters about hot and dirty costumes, abusive child customers and low wages. Why risk picketing or walkouts by other Disney employees in the Teamsters or 16 other unions at Disney World and Epcot? This April Disney gave the Teamsters 7% to 12% increases for characters with seniority.

For Disney—or "The Mouse," as the empire is called by Orlandoans—quick union agreement was smart business. For central Florida, which scratches when the Mouse itches, the unionization of Disney World and Ep-



Mickey Mouse, the Teamster?

A mousehold in antiunion Florida.

cot is a watershed event, giving the unions a foothold in previously antiunion central Florida. The Orlando *Sentinel* noted wryly, "We don't understand what all the ruckus is about. After all, throughout its long and colorful history, the Teamsters union has had more characters in its ranks than have been in all the Disney World parades combined."

Once a sleepy sun community populated by citrus growers and retirees, Orlando and surrounding Orange County have become the center of a

Mouse-induced economic explosion that is one of the hottest in the U.S.

The region is booming so much that the U.S. Labor Department expects organized crime figures, who are losing footholds in Miami to Cubans and Colombians, to gravitate to central Florida. Says one federal investigator of labor racketeers, "This area is going to be a fountain of money." The Labor Department this spring opened, without announcement, a new office in Orlando to investigate possible racketeering there. That action followed testimony to the U.S. Senate Labor & Human Resources Committee by Hugo D. Menendez, special agent in charge of the organized crime and racketeering section of the Labor Department's Office of Inspector General. Menendez, who oversees the southeast region from headquarters in Miami, was asked by the committee: "Have organized crime and racketeering been active in the construction of Epcot Center?" Menendez answered, "Yes . . . and there has been a lot of what we consider extortionate demands and the destruction of equipment and so on."

Not surprisingly, Disney officials adamantly deny any hint of organized crime activity at or around their property. So does John Tishman, chairman of Tishman Realty & Construction Co. Inc., the firm that was the supervising contractor for Epcot and is building an 814-room Hilton hotel on Disney property. Tishman says of Menendez' testimony, "That's a stupid statement. I don't equate organized crime with responsible labor."

Tishman can afford to say that because Disney and Tishman bought peace with the unions—and some favorable terms as well—by agreeing that construction would be done by union labor. But the crime-fighters are worried about what is happening at nonunion projects—such as at a 750-room Hyatt hotel currently being built as part of a \$600 million Dutch-financed project called Cypress Walk near Epcot. Last year a steamroller was stolen from an Epcot construction site and abandoned at the Hyatt after it had bowled over more than 100 feet of chain link fence worth \$20,000. Was it a prank or part of a conspiracy? Local law enforcement officials say they don't know.

Orlando hasn't really been the same since 1964, when Disney quietly began buying groves, ranch land, pine forests and cypress swamps about 20 miles southwest of town. The company got 27,400 acres for \$5.5 million. Now Disney's properties are worth nearly \$2 billion, employ as many as

20,000 workers on premises and have magnetized the entire central Florida economy. Before Disney, only 5% of the tourists visiting Florida listed Orlando as a destination. Now more than 50% come to see the Mouse. Other tourist attractions, such as Sea World—which has 3 million customers annually—Circus World and Cypress Gardens, also benefit tremendously from Disney guests looking for a change of pace and shorter lines.

MCA/Universal, which had announced plans for a \$170 million Universal City/Florida studio tour park on 423 acres near Disney, now is reassessing its project plans. Why? The success of Epcot has been so tremendous that Universal isn't certain its plans to be host to 3 million customers annually are adequate.

Large northern companies in high-technology fields also are moving to Orlando's climate of sunny days, moderate wages and still affordable housing. American Bell is relocating hundreds of employees, Westinghouse moved a division there from East Pittsburgh and Philadelphia, and other companies eager to be within an hour's drive of Cape Canaveral also are moving south. Harcourt, Brace, Jovanovich, owner of Sea World, finds the area appealing enough to be relocating its publishing headquarters from New York.

Construction is booming. So far, the Orlando area has 35,000 hotel rooms, and another 20,000 rooms—at a construction cost of more than \$80,000 per room—are planned for the next five years. That will give Orlando the sixth-largest collection of hotel rooms in the U.S.

The East Central Florida Regional Planning Council estimates that between now and 1986 there will be \$17 billion of new construction in central Florida, with more than \$10 billion in residential developments like a new housing project and golf course planned by Arnold Palmer, who paid an old-line family of citrus growers nearly \$30 million for 1,600 acres of groves. More than 90,000 new jobs will be available in the next five years as a result of the new developments.

Local banks also are awash with money. Sun Bank N.A. in Orlando has gained more than \$300 million in deposits, including \$100 million in new business, since last December, when banks were allowed to offer money market funds, notes Chairman Buell G. Duncan Jr. Charles (Pete) Cross, president of the rival Barnett Bank of Central Florida N.A., says, "I'm wearing out my shoes trying to put our money to work."

The posh businessmen's club in town is the Citrus Club, an aerie atop the 18-story CNA Tower, where old-time citrus growers are now outnumbered by construction magnates. There's plenty of business for the latter. From 1970 to 1980 the Orlando metropolitan area grew 54%, to 700,000. By 1990 the population should be more than 910,000. The region has the expectant air of a Los Angeles-Anaheim in the making, of Atlanta in the 1960s, of Anchorage just before the pipeline hit. The prospect of still being able to buy a three-bedroom home for \$60,000 helps attract people—and keeps wages relatively low.

The Mouse pervades all aspects of life. Sun Bank Chairman Duncan says two of his children met their spouses

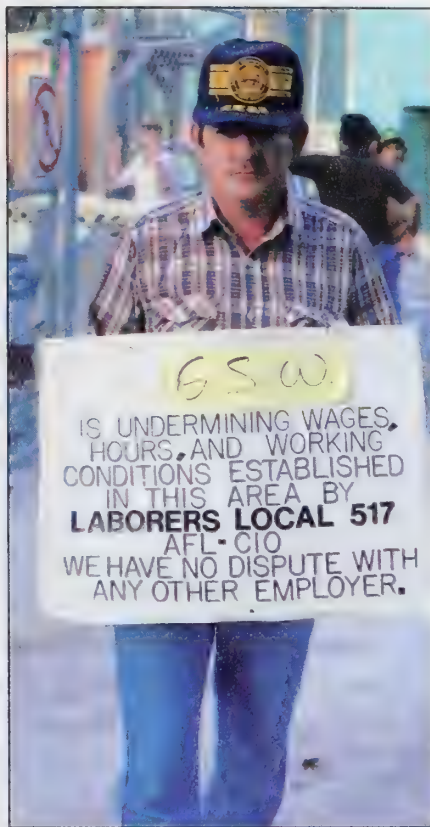
have accepted unions, the atmosphere is improving for union organizers—but slowly. "We think this is the time for organized labor in central Florida," says Walt Boggess, business agent for Operating Engineers Local 673. "We've had meetings with our contractors, and we're going to help them be competitive. My members have made concessions. They decided to drop wages from \$13.84 per hour to \$8 per hour." Less conciliatory is Joe O'Donnell, the militant business agent for Laborers Local 517, the craft that provides the most pickets at non-union construction sites. "We just want everyone in the country to know we're not going to put up with non-union contractors," he says.

But the unions aren't going to have an easy time. Nonunion operators can be found for as little as \$6 per hour, and union picketing is scarcely encouraged here. Contractors hire off-duty Orange County sheriffs' deputies at \$10 per hour to guard work sites and instantly call Sheriff Lawson Lamar if there's any trouble. Businessmen, like local construction magnate Frank Hubbard, whose companies build most of the roads and parking lots in central Florida, are firm in their support for Lamar's enthusiastic administration of law and order. Says Lamar, a 41-year-old former prosecutor, "We kick ass, constitutionally."

As long as Orlandoans keep prospering, it's likely that their longtime conservative politics will dominate the economy, and unions won't. There's no sign of prosperity abating, either. Just ask Sun Bank of Orlando President Hans Tews about orange groves, and he says with a smile, "They make beautiful housing developments, don't they?"

As if to accent the point, Duke Crittenden, a rough-hewn, self-made millionaire citrus grower, invited FORBES to drop in at his home along the second fairway of Rio Pinar Country Club. Two local real estate men and an industrial developer from Westport, Conn. were sitting on the screened-in porch near the built-in barbecue pit. They were working out a deal to buy from Crittenden eight acres of orange groves along Interstate 4, five miles from downtown Orlando in suburban Maitland, for \$4.5 million. (Crittenden had already sold 25 acres for more than \$2 million.) "I bought 40 acres in the 1950s for \$100,000," says Crittenden, "and now they're worth \$7 million to \$10 million. I describe the Maitland property as Manhattan Island."

Oh! How that Mouse is changing Orlando. ■



Joe O'Donnell of the Laborers Union
"We're not going to put up with non-union contractors."

while holding summer jobs at Disney World. While the wage base for its employees, many of whom are food and beverage or sanitation workers, is low—\$4.60 to \$6 per hour—the huge Disney payroll of \$4 million per week, plus the additional millions generated by other tourist-related businesses, means a tremendous cash flow, providing a tempting target for those who would control health and welfare, death benefits and pension funds.

Now that Disney and Tishman

Lawmakers get caught up in fads just like the rest of us. Here's a tale about their version of Hula-Hoops and Nehru jackets.

Why the sun never sets

By Jeff Blyskal

REMEMBER the sunset laws that were all the rage a half-dozen years ago? To eliminate waste, inefficient regulation and bureaucracy, tough-minded state legislatures decided that every agency and regulation would regularly disappear unless someone could justify its existence. For politicians from Juneau to Tallahassee, it was love at first sight. Colorado was the first to pass sunset legislation in 1976. Soon after, 35 states made similar moves.

In the six years since then, however, government growth has continued apace—and the impact of sunset laws has faded fast. Pilot programs in Nevada and South Dakota have died. In North Carolina the automatic expiration clause has been removed. And last month Arkansas managed the ultimate—using sunset law provisions to phase out its sunset law. "There are sexy issues in every legislative season," says a political scientist. "Sunset was popular in the 1970s just as compensation to victims of crime is today."

Some statistics, of course, are impressive. A 1982 survey by *Common Cause* indicates that approximately 20% of all agencies reviewed under sunset provisions were terminated. "But most of those were relatively unimportant bodies, such as the Driving Instructors Examining Committee or the Watchmakers Board," explains Richard Jones, senior staff associate at the National Conference of State Legislatures in Denver.

Part of the problem is that sunset provisions weren't really automatic. Like everything governments do, the process of reviewing scores of agencies required time-consuming, expensive staff work. Naturally, the bureaucrats bogged down, and when deadlines weren't met politicians simply continued big agencies as is.

Most sunset programs also zeroed in on licensing and regulatory boards,



often financed with fees from the businesses they regulated. This makes for strong interest-group support and low public concern. "You can get 4,000 stirred-up cosmetologists in the statehouse rotunda screaming for the scalp of anybody who wants to abolish their licensing board," says Jones. "Who would risk his political career to do that when the general public doesn't even care?"

Sunset laws, however, aren't without their bright spots. Three years ago, for example, Florida applied sunset provisions to bus and truck regulators—the most significant use of the law anywhere. "We found that 96% of our trucking industry's revenues were controlled by six companies," says George Sheldon, a former state representative from Tampa who became a sunset convert. "Also, because of a restriction that allowed charter buses to be operated only by people who ran regular route service, Greyhound and Trailways virtually controlled that business."

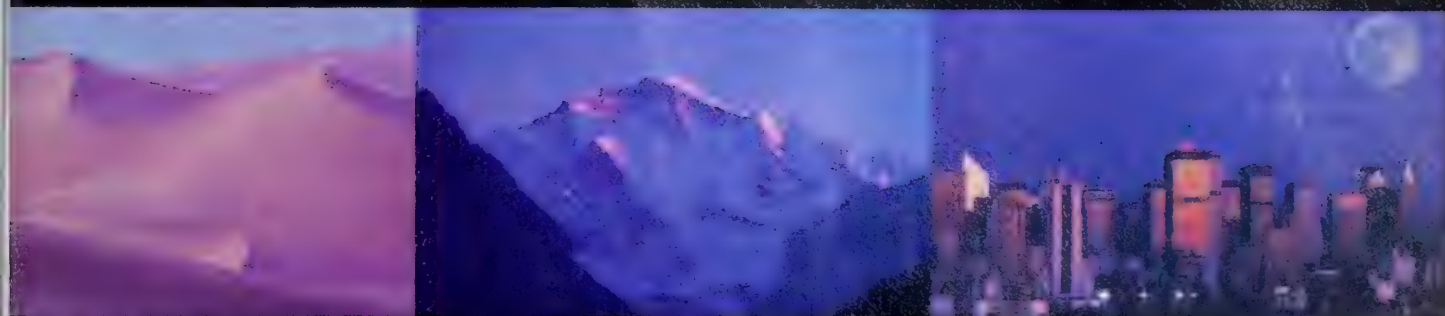
Since deregulation, charter bus operators are now as common in Florida as backyard alligators in a wet spring. More efficient regular routes have been established there, and competition has cut charter costs by 30% to 50%. Though a number of towns were abandoned by the big regular route carriers, smaller operators filled many of the voids. In trucking, meanwhile, a federal study indicates that many new firms have begun operating in the state, expanding service and lowering prices.

State officials elsewhere claim that sunset is not a total loss and point to the nonelimination benefits. "These

laws set up a review process that shows us how agencies can be fine-tuned to perform better," says Ben Cardin, speaker of the Maryland House of Delegates. Also, some states use sunset to modify bigger programs rather than simply shut down minor agencies. "Reviews of big-dollar programs are more important than reviews of small-dollar regulatory functions," says Stanley Stenerson, performance audit manager for the legislative division of post audit of Kansas.

Like all legislation, sunset programs need political support to work. Word around Tallahassee, for example, is that Florida lost its transportation regulations because of former Senate President Dempsey Baron. Several chartered buses reportedly failed to show up at a campaign rally featuring country singer Mel Tillis. "He got perturbed," recalls Sheldon, "and said, 'We're gonna have to give you-all some competition.'"

"Automatic" sunset programs, then, are like any other laws. They're only as effective as the people who enforce them. ■



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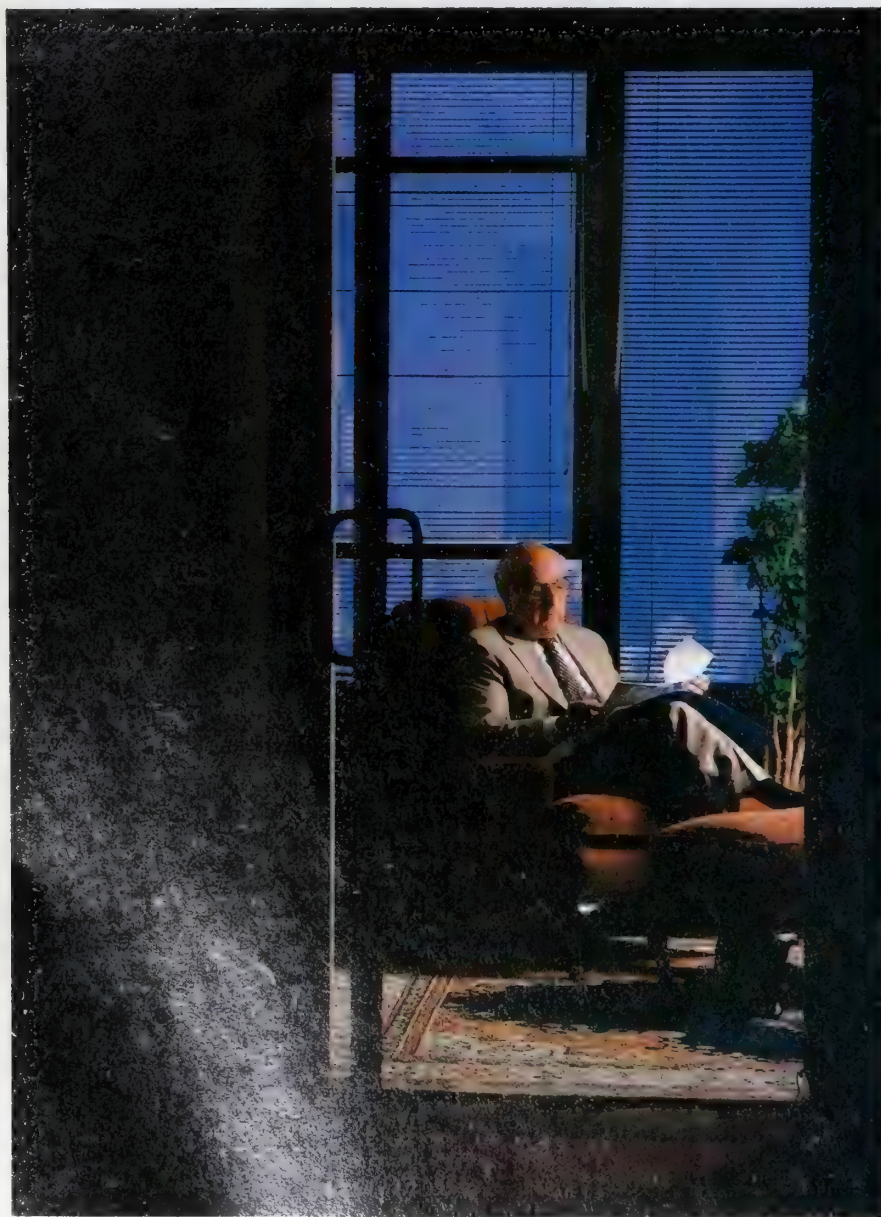
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GLOBAL INVESTMENT BANKING

Here's a midwestern manufacturer whose earnings were scarcely dented last year. What's Borg-Warner doing that's right?

Healthy smokestacks



James F. Beré, chairman and CEO of Borg-Warner
"Mob psychology is very prevalent among CEOs."

By Ellyn Spragins

ONE DAY IN 1966 ten division presidents of Borg-Warner's automotive group walked into the conference room at the Rockford, Ill. plant. They expected a routine meeting with their boss, Jim Beré. But Beré, just over a year on the job as group vice president, had a surprise in store. In outright violation of a company rule against disclosure of certain financial data, Beré revealed all ten divisions' sales and profits or losses. Beré wasn't fired, as some of the managers thought he would be. His boss was upset. Yet two years later B-W plucked Beré, at the age of 45, from a group of older and more experienced candidates and promoted him to the B-W presidency. The board that picked him had realized the very openness which had once gotten Beré into trouble was a great virtue in leadership. Because he was so frank, people trusted him and would do what he asked.

The board had chosen wisely. Beré has transformed a collection of ill-fitting industrial operations into a conglomerate that really works. Beré shucked off B-W business lines with nearly \$1 billion in sales and acquired new ones, heavy on the service side, with over \$500 million in sales. Just one comparison shows the striking effect on the company's finances. In the recession before last, the 1973-75 slump, B-W's earnings shrank by 37%. But in 1982 the shrinkage, to \$167 million in earnings on sales of \$3.2 billion, amounted to only 3% from the prior year, and earnings were actually up 33% from 1980.

B-W, headquartered in Chicago, remains a place where employees spend their entire working lives, where the president still stops by the dining room kitchen to chat with the staff and where, despite diversification, smokestack industry still accounts for 71% of business. B-W's gritty side consists of manufacturing chemicals and plastics, air conditioners and equipment for the automotive and energy industries. The diversification managed by Beré—now chairman and chief executive—has thrust the company into financial services and industrial and residential protection, which together contributed 34% to 1982 earnings.

Yet Beré doesn't sneer at smokestack America. Industrial manufacturing, he says, will never account for less than roughly half of B-W's business. "I think mob psychology is very prevalent among CEOs," he says. "Everyone is going after electronics



Beré with Borg-Warner employees

"If he asks you to do something, you say, 'Watch out, five-foot-thick brick wall, I'm coming through.'"

companies. Prior to that they were all chasing insurance companies." But he draws no sharp distinction between manufacturing and service businesses. "When you are manufacturing something," he says, "the whole essence of business is to serve."

Take B-W's oldest business, founded on metal-bending to make automobile and other parts. Beré dumped the lines that weren't consistently profitable. He stuck with parts that automobile manufacturers can less easily make for themselves. That meant getting out of automatic transmissions, for example, and closing plants. B-W has wound up with its warehouses filled with proprietary products like the Hy-Vo chain, used in front-wheel-drive transmissions, for which service—in the form of engineering and design—can add value and profitability. Although the biggest recent drop in U.S. auto production was about 25%, in 1980, B-W's sales to the auto industry that year fell only 16%.

B-W's chemicals and plastics division found a way to increase its service to customers last year by becoming a broker of other producers' resins. Now B-W's small wholesale customers, such as Mike Schuitt at Keco Inc. in Oklahoma City, place more business with B-W; he orders five times as much, in fact, as he used to. "I get much better service now," he says. "Monsanto and Dow only go after the larger accounts. Borg-Warner saw this void and stepped in."

Illustrative of B-W's approach is a device developed by the air-conditioning group. This device embodies some of Beré's most ambitious plans for Borg-Warner's industrial businesses—

to marry brains to machines. It's the Turbo-Modulator, a box that "senses" the coolness of water returning through an air conditioner and tells the machine how fast to run the motor in order to hit a desired air temperature. Nothing too fancy, but customers can add it to their systems and save energy immediately. "We don't want to automate the factory like GE," Beré says. "We want to make the components people can buy to automate themselves."

Despite his dedication to manufacturing, Beré has not hesitated to go outside his industries for knowhow. Under Beré, B-W has bought 5% and 10% interests in small electronics and software companies, to gain their expertise, and has entered into several joint ventures to acquire technology. "It became obvious that the global turbocharger market was going to take off," says Scott Merlis, an analyst for Shearson/American Express. "How does Borg-Warner develop a turbocharger overnight? They signed a joint venture with IHI, a Japanese manufacturer, and now Warner-Ishi turbochargers will be in the new Ford Escort models."

Beré's ability to enter productive partnerships is also evident in B-W's three major equity interests in other companies. Rather than sell off B-W businesses outright, Beré chose to swap three of them for stock. Thus did B-W end up with substantial stockholdings in Hughes Tool, Echlin and Amedco. B-W's 1.8 million shares of Amedco, originally worth \$7.5 million, are now worth \$44 million. B-W's 19% interest in Hughes Tool, while currently depressed in price, is a jewel many companies would gladly

buy if B-W were to offer it for sale. But such a sale is unlikely even to finance the purchase of another service business Beré wants. It is estimated that divestitures of other operations could fetch \$100 million to \$150 million in cash, and B-W's debt amounts to only 24% of equity. Beré is as modest as he is open. He takes little credit for B-W's specific innovations. He does accept the credit for helping motivate the people who innovate. "If you communicate with people, you can release their creativity," he says. "They can go to work and be part of the decision tree."

Call it good communications, call it good leadership, Beré's style produces results. Old-time employees say they know more now than they ever did before about what must be done to help the company compete. Even a union official says that he came to trust senior management under Beré. "A few years ago," he says, "I sat down with management and said, 'I'm not going to lie to you anymore.' " Says one officer, "Beré is the kind of guy who, if he asks you to do something, you say, 'Watch out, five-foot-thick brick wall, because I'm coming through.' "

No amount of employee zeal can strengthen sick markets, of course, and B-W would be doing much better if it weren't for weakness in Europe, in oil drilling, in air-conditioning and in other divisions. Nevertheless, in the first half of 1983, although total earnings slipped slightly, operating profit from manufacturing groups rose by 30% and for the full year B-W is headed for an earnings record. If smokestack America is dying, you wouldn't guess it here. ■

"At Southern Pacific, we're planning a city
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Will Dawkins
Mission Bay Project Manager
Southern Pacific Land Company



far from Nob Hill, Chinatown, and Union Square, there's a part of San Francisco that tourists seldom see. It's almost two hundred acres of railroad yards just a mile from the thriving Financial District.

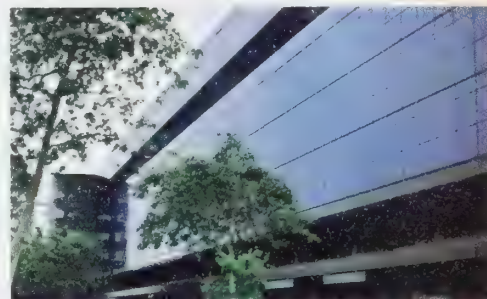
Plans call for this vast open area to be transformed into Mission Bay, a dramatic city within a city. Clustered around Mission Bay's lagoon and

canals will be a balanced mixture of residential and light industrial buildings, shops, offices, and community facilities, parks and open space.

Unlike most projects of this kind, Mission Bay won't be financed by public agencies. Southern Pacific will be the primary developer of Mission Bay, and it will be one of the largest urban developments ever

undertaken by private industry and private capital.

It will also be one of the most sensitive to the concerns of the city around it, because Southern Pacific is finding out what kind of community the people of San Francisco would like to have at Mission Bay while the project is still in the planning stage. We've gathered ideas



The Pacific Design Center in Los Angeles is affectionately nicknamed "the Blue Whale." This early development by Southern Pacific is a glittering showcase for the country's leading interior design firms.

and opinions in a series of workshops with neighborhood groups, public agencies, and city officials. These open meetings will continue through the development process, until a master plan is reached.

To create and execute that plan, Southern Pacific has retained I.M. Pei & Partners, and Wallace, Roberts and Todd. These award-winning architects and urban planners will bring to Mission Bay the high aesthetic and practical standards they have already established in projects for the National Gallery of Art, the John F. Kennedy Library, Baltimore's Inner Harbor redevelopment, and the U.S. Capitol Master Plan.

The Mission Bay project is the latest in a series of developments Southern Pacific has been involved with. Others include the Pacific Design Center in Los Angeles, One Market Plaza in San Francisco, and the International Rivercenter in New Orleans. These, in turn, form a small part of a diversified corporation with operations in transportation, pipelines, real estate, natural resources, insurance, equipment leasing, energy, printing, forestry, and agriculture.

We began life as the railroad that opened the West, more than a hundred years ago. Since then, our vision has taken us far beyond the reach of our rails and the dreams of our founders. Nevertheless, Southern Pacific remains today what it was in 1862: a young company with fresh ideas, bold plans, and a future filled with promise.

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How a mutual fund salesman with a high school education became godfather to a whole passel of high-tech companies.

The godfather

By Anne Bagamery

IF YOU THINK that only engineers can run technology companies, meet John Adel, chairman of \$9.5 million-a-year Percom Data Corp. in Dallas. Although he never got beyond high school, Adel manages the affairs of this fast-growing, seven-year-old maker of computer peripherals. In the evening you're likely to find him grilling steaks over mesquite coals for family, friends and foreign students from the nearby University of Texas at Arlington campus.

Adel's work and his entertaining have a little in common. Adel, 63, the San Antonio-born son of Lebanese immigrants, acts as an unofficial godfather to UTA's 400-plus Middle Eastern students. He has also made a name for himself playing godfather to startup technology companies that fill the suburban office parks north of Dallas. His niche is supplying entrepreneurial skills to technical types.

Along the way Adel has earned a personal net worth of around \$5 million and has made millionaires of a dozen engineer-entrepreneurs who admit they could barely balance their checkbooks before they met him.

Adel is a down-to-earth entrepreneur who has kept the common touch. His nest egg came not from oil or family money but from 20 years as a top salesman and manager for Investors Diversified Services, Inc. Adel's business contacts are largely fellow amateur radio buffs. Adel took up ham radio while he was a Boy Scout and still broadcasts from a cluttered room in his otherwise pin-neat North Dallas home.

Adel, among other things, has

turned three small companies into thriving high-tech operations: Electrospace Systems, Inc. (with sales of \$62 million), which makes military electronic equipment; Spectradyn (which supplies pay-per-view movies to hotels; and Percom (\$20 million), which builds disk drives and networking devices for the top five small-computer makers.

Adel was able to pull off these successes simply because he is a master salesman, a professional at motivating people to buy mutual funds, disk drives, equity in startups—you name it. He says he comes by his talent naturally: His immigrant father started out as a door-to-door linen peddler. His father also taught him that to get ahead you've got to drive yourself and sometimes deprive yourself. "So many of our most successful Americans are immigrants because they know how to look to the future," says Adel. "They don't mind depriving themselves a little today of the luxuries most of us take for granted."

Adel applies the same lesson to business. He insists that top managers at his companies take reduced salaries and perks in return for sweat equity, and he does the same. "I'm in there because I feel I can help long term, and I want others to have the same long-term view," he says. "There's nothing like vested interest to motivate people."

Adel spent 11 years in the Air Force as a communications officer in World War II and the Korean War before joining Investors Diversified Services in 1953. IDS, now being bought by Amexco, is a high-volume seller and distributor of mutual fund shares.

Within five years Adel had joined

the ranks of the firm's ten highest-producing sales managers. "He'd set himself daily goals—how much he needed to do every day to feed and house his wife and two kids—and he wouldn't go home at night until he'd done it," says a longtime associate.

Adel explains his success this way: "I'd have my salesmen over for barbecues, get to know them, make them feel we were all in it together. They'd bring their best customers, and the feeling just builds."

In 1970 Adel backed into venture capitalism by introducing William Bowen, chairman of Dallas Business Capital Corp., to Dick Fenwick, an engineer whom Adel knew from ham radio clubs. The introduction took place in Adel's family room, where Dallas Cowboys football fans often gathered on Sunday afternoons to watch blacked-out home games intercepted by Adel's 100-foot antenna. Fenwick, then at Collins Radio (today a Rockwell International division), had been thinking of striking out on his own with three fellow Collins engineers to make communications gear for the military. As Bowen remembers it, Adel waited until halftime, then turned to Fenwick and said, "Bowen here's got all this money. Why don't you boys put something together?"

Predictably, perhaps, Bowen's board was reluctant to back a company that had no firm contracts and, worse, would be managed by four engineers. But when Adel promised to buy 5% and stick around to get things started, Dallas Business Capital bought \$60,000 in stock and kicked in \$150,000 for 9% notes. With the founders' \$60,000 and a contract to help the Navy develop its TACAMO airborne VLF systems, Electrospace Systems was born.

Adel stayed out of the workshop but insisted the company set up profit-sharing plans—something that would never have occurred to the founders. Adel also insisted upon generous stock options so as many employees as possible would have ownership in the company.

Today Electrospace is growing solidly and returning more than 45% a year on equity. Adel, still a director, has reduced his holdings below 1%, but Jim Lightner, one of the four founders of the firm, has a 13% stake worth over \$16 million. "When I say good morning to John Adel," says Lightner, "I feel good all day long."

The case of Spectradyn (FORBES,

July 19, 1982) was more acute: In 1975 the four-year-old company had developed an advanced automatic switching and billing system for in-room movies for hotels, but the founders—four more ex-Collins engineers—were so busy perfecting the product they

rhic victory: He and Bowen had a falling out and Adel sold his third of the company in 1975 to a venture capital firm backed by Dallas' Murchison family. "That was a \$7 million gift," Adel says today.

With Percom, where he has been

Percom growing in the face of competition from over 100 independent peripherals suppliers is a full-time job. But entrepreneurial habits die hard. "I just heard about a little company in Naples, Fla. that has satellite space and wants to sell dishes for on top of



John Adel of Percom Data Corp.

A master salesman, at mutual funds or disk drives.

began to run out of money. Adel offered to buy a third of the company, again enlisted the aid of Dallas Business Capital for loan guarantees, and recruited Howard Buchanan, another Collins ex, to become president. Within a year Spectradyne was in solid enough financial shape to buy out its major competitor, a Time Inc. venture called Computer Television Inc., and all but monopolize the business.

Lightner remembers the negotiations. "All these Time hotshots were coming down from New York, and at the time Spectradyne was in offices that looked like an alleyway. John asked to use Electrospace's conference room, which looked better. John did all the talking, and what he didn't say—but it came through—was that he was ready to go down fighting if Time didn't sell out. Before long he had them so buffaloed they made a deal. It was a masterful job of selling."

Spectradyne went public in 1979, and made a millionaire of Howard Buchanan. But for Adel it was a Pyr-

chairman since August 1982, Adel is getting another shot at a Spectradyne-like situation. Percom's founder, Harold Mauch, who died suddenly last August, had been selling his line of disk drives through the mail since 1976. When the small-computer market took off in 1981, Mauch didn't have the management or resources to keep up. Adel offered him \$500,000 for half the company. In the ensuing 12 months Adel recruited managers from IBM, arranged for a \$5 million private placement through a group of venture capitalists and made a crucial decision: not to build small computers. "All the research showed that the peripherals market would grow faster and post higher margins than the market for computers," he says. "But Harold wanted to glamorize the product line, and he was pretty annoyed when I told him not to." Because of price-cutting, the home computer market is barely profitable, while the peripherals business posts 30% gross margins.

For the moment, Adel says, keeping

your home," he says with a gleam in his eye. "Now that's the technology of the future—direct broadcast from satellites. I think I'll give that little company a call. It couldn't hurt." ■

Turning the corner

The frustration that dogged tiny Chemfix Technologies Inc. since its founding in 1977 has ended. Chemfix, with \$3.8 million a year in sales, owns a patented process that seemed to hold great promise. It was a way to trap hazardous and nonhazardous liquid wastes inside a claylike material. But Chemfix found it hard to make a sale and impossible to turn a profit.

Chemfix was formerly a subsidiary of National Environmental Controls and so little known that few noticed when it was spun off from its parent. Nobody beat a path to its doors on Airline Highway in Kenner, La. While the Chemfix process could take anything, from asbestos sludge to sulfate

The Up & Comers

liquids, and chemically turn it into an easily handled solid, Chemfix had trouble finding customers.

But even when it found them, it was hard to make a sale. Chemfix' process, which uses two reagents, costs too much—up to ten times as much as hauling waste to a dump. "It pretty much boiled down to that," says Daniel Silverman III, 31, Chemfix president, who spent summers as a boy hauling trash for his family-controlled National Environmental. "We couldn't compete on price."

"We did maybe five to ten jobs in the last four years," Silverman says. Chemfix lost about \$1.1 million during that time. National Environmental absorbed the losses until it spun off Chemfix in 1980. Since then, a private placement of stock and a contract from the District of Columbia have kept the company going. "Hanging on was tough," Silverman says. "Looking back, there was a double learning curve. We had to learn what we had and what to do with it. And the government had to learn how hazardous these wastes are."

This year both curves hit the right slope, and Chemfix has become profitable. In the nine months ended May 31, Chemfix earned \$317,000 on sales of \$4.3 million.

The furor over toxic wastes at Love Canal in New York State and Times Beach in Missouri has helped Chemfix. Although its process doesn't render toxic liquids harmless, it does



Chemfix President Daniel Silverman III
An agonizingly slow start.

convert them into a solid, which is unleakable and easier to handle. The company also has found it easier to identify customers. It now uses a published list of companies and the hazardous chemicals they handle, information required by environmental guidelines adopted in 1980 during the Carter Administration. Finally, price is no longer a major concern. Increased competition for landfill space and tighter regulation of its use have raised the cost of dumping to the point where Chemfix can compete.

"With the potential for lawsuits,

many companies would rather control the material themselves," Silverman says. "They use our process and store the material on site."

So the worse the environmental news gets, the better things should be for Chemfix. Vigorously committed to defending his patents, Silverman now sees unlimited growth.

"How big can we be?" he says. "Well, the government estimates there will be a \$12 billion market in the handling of chemical wastes by 1990. Just 5% of that would be nice."—Paul B. Brown

"Mezzanine" financing

Let's dream a minute. IBM has gone private, and you have struck a deal to buy it out for \$60 billion, but there's a catch: You need \$5 billion in actual cash. Where will you get it? The example is fanciful. But the problem, in corporate buyouts, is not. Like any hard-pressed house hunter, a buyer can borrow, but he still must make a down payment in cash.

Enter Charterhouse Group, a subsidiary of London's Charterhouse Group Plc., the investment banking firm. Charterhouse is betting \$99 million—raised from overseas investors and held in a closed-end fund listed on the London stock exchange—that there is a lot of money to be made supplying that missing little bit of capital.

The idea is simple. Say a manager decides to buy the division he's running before his company sells it to somebody else. The price tag: \$100

million. A bank might lend \$80 million, and the manager, his co-workers and kinfolk might come up with another \$5 million. If it liked the deal, Charterhouse's Mezzanine Fund would supply the other \$15 million in return for a note, along with the right to take equity in the company. The fund's loan would become subordinate to bank or other outstanding debt, but the fund's right to acquire equity at favorable terms would give it an edge over other shareholders. "We will be between the balcony and orchestra, between the debt and equity; hence the name Mezzanine," says Merrill Halpern, Charterhouse Group's 49-year-old president.

Don't look for show-biz glamour in Charterhouse deals, however. "We don't want excitement, we want stability," Halpern says. "The very thing that makes high tech so exciting, the constant evolution of an idea, makes

it dangerous to invest in. That idea becomes obsolete." Halpern says he is looking for deals in manufacturing and other long-established industries.

Charterhouse is no newcomer to leveraged buyouts, having had a hand in one of the earliest and most successful of all, the acquisition of privately held Dreyer's Grand Ice Cream, Inc. of Oakland, Calif. in 1977. Charterhouse Group invested \$397,000 in the buyout and got stock worth \$16.2 million when Dreyer's went public in 1981.

As companies continue to divest themselves of operations that no longer serve their long-term objectives, both corporate buyers and sellers, Halpern thinks, will welcome Charterhouse's buyout financing. And when both sides need your help, he figures, it won't be hard to make money.—Barbara Rudolph

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America's Cup
America's Cup



AMERICA'S CUP 1983: THE FIERCEST CHALLENGE

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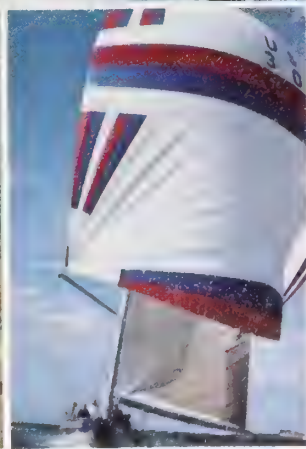
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It's been an expensive lesson, but American Sterilizer seems to have learned it: 'Tis often better to invest in your own business than in somebody else's.

Back in focus

By Jill Bettner

WE'RE FOCUSING ON OUR franchises now," says Henry Fish, chief executive of American Sterilizer in Erie, Penna. It's been a lesson hard-learned.

Fish's company is the world's leading manufacturer of hospital sterilizers and related items, which account for 73% of the company's sales and maybe two-thirds of the entire world market. The competitors, companies like Castle, a unit of Sybron, and Veritron, are also-rans. AMSCO also is the leader in operating tables, where its closest competitor is Affiliated, a subsidiary of United Industrial Corp. AMSCO dominates the highly fragmented market for operating room surgical lights.

Yet Fish admits that, until 1978, his company's record was less than inspiring. The nearly 100-year-old company, which had always been square, decided in the late Sixties to turn swinger—and made the classic mistake of diversifying into businesses it knew nothing about.

There were, for example, Lombart contact lenses, Champion dishwashers and Turner lab instruments. Return on equity slid steadily from 11.5% in 1967 to a low of just 5.3% in 1977, when Fish decided enough was enough.

Having dumped the last of the acquisitions, AMSCO is concentrating on cutting costs and is seeing the results of a retooling begun two years ago. Last year earnings increased 17.8%, to \$13.6 million, or \$1.52 a share, on a 7.5% sales rise, to \$254 million. This year's first-half net was up 16%, to \$7.3 million, or 80 cents a share, on a 6% sales increase to \$134 million. Analysts' projections for 1983 full-year earnings: \$1.75 a share.

Clearly, it pays to mind your own business. Finally aware of this, in 1981 Fish launched a four-year manufacturing productivity improvement program, budgeting more than \$20 million for modernizing and expanding the company's factories in Erie, and in Montgomery, Ala. and Jamestown, N.Y.

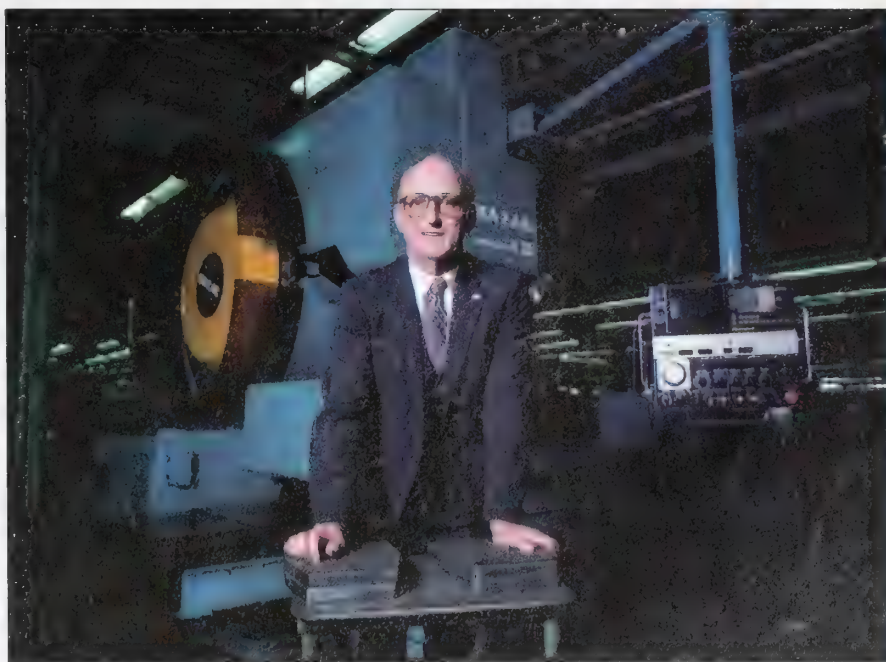
AMSCO's 1982 capital expenditures of \$11.6 million doubled the average annual outlay for the previous decade. Overall, the current spending program has expanded manufacturing capacity at the three plants by 14%, with no increase in manpower. AMSCO is meeting its delivery commitments as promised 98% of the time, up from a dismal 72% just a year ago. A computerized "just-in-

time" system for ordering materials from vendors, installed last summer, reduced inventory by \$1.7 million. New computer-controlled machines in the Erie factory allow the company to make parts previously bought from vendors. And while unemployment in smokestack Erie still hovers around 15%, some AMSCO workers are earning overtime.

"We've realized where our strengths are," says the soft-spoken Fish, whose father spent his career with the company after marrying the daughter of one of its founders. (Family members and other insiders own about 10% of the shares.)

Nearly 30% of AMSCO's 1982 sales came from international operations, about 70% of that from its Canadian subsidiary, Ingram & Bell Ltd. Overseas the company is represented by 75 dealers in Europe, Latin America and the Far East. It is also currently exploring the possibility of selling its sterilizer manufacturing technology to the Chinese Shandong Medical Equipment Co.

Like a lot of smallish companies in glamorous-seeming businesses, AMSCO has cashed in on the new-issue boom. The company raised a pile of fresh cash in June with a stock offering of 1.2 million shares at \$21.50 a share. Not bad for a company with a book value of only \$13.05 a share and a spotty earnings record. But if Fish has learned his lesson and if the company stays with the businesses it knows something about, the new stockholders may not be disappointed. ■



CEO Henry Fish at AMSCO's sterilizer plant
"We've realized where our strengths are."

Vietnam is on the other side of the world. Even El Salvador seems remote. But if turmoil comes to Mexico, there is no way the U.S. can avoid being dragged in. Here's why the current Mexican crisis, so threatening to the U.S., goes deeper than the usual complaints about oil prices, foreign debt and corruption.

Can Mexico pull through?

By Norman Gall

Miguel de la Madrid: the president as priest and king.

"Muchas gracias, Señor Presidente, muchas gracias." The president of the republic was seated in a crowded tent pitched on the small cattle fairground of the *municipio* of Tlaquiltenango in the dry hills of the Valle de Vazquez in the state of Morelos. Near here, seven decades ago, the guerrillas of Emiliano Zapata dodged federal troops during the bloodiest phase of the Mexican Revolution. Now the descendants of these guerrillas were patiently waiting their turn to present their requests and make their complaints to the highest authority. Each of them would get just 30 seconds to present his or her case.

The speeches are brief because the meeting has been very carefully arranged. "*Señor Presidente*: Valle de Vazquez covers 12,000 acres, of which roughly 11,000 are dry hills and only 1,000 can be farmed when it rains. We are 2,000 inhabitants. With the money you have given us, about U.S. \$63,000, we have invested in fences and pastures and water troughs and a corral, benefiting our families. Lastly, we peasants of Valle de Vazquez ask you urgently to provide us with an irrigation system to better use our land. For all this, we thank you."

Notwithstanding the republican and revolutionary trappings of his office, the president of Mexico is a priest and a

king. He travels often among the dusty villages of his realm, as do few of the world's heads of state, in a continuing ritual to renew the security and legitimacy of the rule of the *Partido Revolucionario Institucional* (PRI), which has governed Mexico for the past half century.

The presidential pageant is accompanied by flags, flowers, mariachi bands, speeches, recitals of the conquests of the Revolution and vows of support for the president of the republic, who brings gifts for his people. The pageant triumphantly passes through a blur of baked Indian faces on baked village streets, half hidden by banners and posters bearing portraits of Zapata, the Indian with glistening eyes who rose from the mass of peasants whose communal lands had been stolen. Zapata refused to be bribed and had to be killed. In death as in life, however, then and now, he haunts the essentially conservative leaders of the Revolution, who have been unable to cure many of the sufferings that led him to rebel. All the more reason for the president to listen, and try to help. The populace must not think of the government as being remote and unresponsive.

"Señor Presidente: The lands of Morelos are turning to dust," announces Manuel Peralta Subdías over the loudspeaker in Tehuixtla, the next stop for the presidential motorcade. "We are the state that most needs conversion of dry farmland for irrigation. But the participation of the officials in charge of the irrigation programs has been

mean and devious. Please help us. *Muchas gracias.*"

Big problems and small ones, the president is expected to solve them all. The priestly and kingly functions of the Mexican president come from the Aztecs, whose emperor declared himself to be a god. The incessant presidential touring began in the reign of General Lázaro Cárdenas (1934-40). This hulking, taciturn son of a small-town pool-room proprietor became the towering figure of the Mexican Revolution after he nationalized the foreign oil companies in 1938. It was Cárdenas who established the ritual that, 45 years later, Miguel de la Madrid is now observing. In those days the provincial revolts and counterrevolts still had not ended, and a presidential presence in the interior was a political imperative.

President de la Madrid does it somewhat differently, however, from most of his predecessors. Instead of giving a speech in each village, the newly inaugurated (December 1982) president listens with great care to the speeches of others in the ritual acted out before him. Behind his

crisis since the armed phase of the Mexican Revolution and the Great Depression of the 1930s. But today we are a bigger and more complex country. In 1930, after the civil war ended, we only had 16.5 million people. Today we are 75 million Mexicans. The size of our economy is much greater, and so are the dimensions of our crisis. For the first time in this century we are going through 100% inflation and economic stagnation at the same time.

Nevertheless, I don't think you can compare Mexico with other countries where economic problems have led into social and political crisis. Although Mexico still is backward in several aspects of its economy and its society, it has been continually modernizing ever since the Revolution.

We have a stable political system, very stable when you compare it with the rest of Latin America and political systems elsewhere in the world. Moreover, Mexico is endowed with large and diversified natural resources. We are the world's fourth-ranking country in oil and gas



silence may lie the brutal fact that the president of Mexico now has little to promise and less to give. Nevertheless, small requests are made and often granted. Symbolism counts for much.

In Tehuixtla the merchants of the municipal market asked the president for a desk and chair, filing cabinet, typewriter, 30 folding chairs and a roof for their stalls. In another request, Hipólito García Albarrán told the president: "Man does not live by bread alone. He needs entertainment. For this reason we have formed a brass band that we wish to expand with two trombones, four trumpets, three saxophones, a drum and a pair of cymbals."

The requests were granted. The President has renewed his ties, and his party's ties, to the people.

Miguel de la Madrid: We shall overcome our difficulties.

The following are excerpts from an interview with Miguel de la Madrid, president of Mexico, conducted in Spanish by FORBES Contributing Editor Norman Gall:

The U.S. and Mexico are increasingly interdependent and so people in the U.S. are worried about Mexico. Our people discuss the possibility that Mexico may become another Central America or another Iran. You yourself have referred many times to the gravity of this crisis.

De la Madrid: Mexico is going through its worst economic

reserves. We have abundant mineral resources, most of them still to be discovered. We have abundant farming and cattle land whose productivity gives us a wide margin for improvement. Mexico already has reached 14th place in the world in fisheries production, and we are only beginning.

For thousands of years, the presence or lack of water has been a matter of life or death in Mexico. Recently Mexico has been lacking water.

De la Madrid: I agree that water is one of the great problems of Mexico. Our hydraulic resources are very unevenly distributed. They are concentrated in the tropical south-east, where the problem is flooding, swamps and runoff of valuable water to the sea. On the other hand, the central plateau and the north, where three-fourths of the population is concentrated, can be considered desert country by standards of rainfall.

Over the past half century, one of Mexico's great achievements has been the building of gigantic hydraulic works—dams, irrigation canals and deep-draft wells—that have brought increasing amounts of land under cultivation. Nevertheless, water remains scarce. Large areas of farming and cattle land depend on rainfall, and, as you have said, there is great scarcity of water in the cities just as the cost of extracting, transporting and distributing water is increasing.

We need a new culture of water in Mexico. We must learn

how to use it better. In the future we must build more small dams and irrigation canals to maximize development of our water resources. The result will be a new culture of water that will create greater awareness in Mexicans of problems of scarcity by raising the price of water.

Water is far from being the only necessity subsidized by the Mexican government.

De la Madrid: One of our economic strategies is revision of our policy of subsidies, which have grown to be an important part of the budget and have put us under heavy pressure.

Growing deficits, caused by artificially low prices of public goods and services, to a great degree explain the inflation we are now suffering. Adjusting these prices will imply some sacrifices and some important changes of



habit. But it will bring us closer to economic rationality.

At the same time, we must realize that Mexico was a much weaker country four or five decades ago than it is now. We have modernized and absorbed new population that has grown at the world's highest rates. Our school population is now 24 million, more than the whole Mexican population in 1940. We have taken great strides in education, health and housing in a country that, before the Revolution, was primitive, lacking institutional stability and internal communications. Mexico today has reasonably good communications. Although the tasks ahead of us are great, I feel that our potential is sufficient to overcome these temporary problems.

In the 1950s and 1960s Mexico became known internationally for its prudent management of its public finances. How did these finances get into so much trouble?

De la Madrid: Our public sector deficit reached 18% of the domestic product last year, which is one of the main causes of our present inflation. Our program of economic reorganization for 1983 aims to bring this deficit down to 8.5%. This is a gigantic effort, without precedent in Mexi-

co or the rest of the world. We are achieving this by increasing government income—raising sales taxes and prices of public sector goods and services—and by cutting public spending. This is an enormous sacrifice, painfully affecting living standards and expectations. But I am convinced that there is no other choice.

In Mexico our deficit comes from a low tax burden, not because rates are low but because of inadequacies in administration of the revenue system. There still is much tax evasion.

Mexico City has become the second most populous metropolitan area in the world. Isn't it cheaper and more viable to resettle people in other places?

De la Madrid: The cost of the city's expansion is extremely high and it represents an injustice to the rest of the republic. Subsidies have made the city more attractive and have stimulated migration even more. In our new Development Plan for 1983-88, one basic goal is decentralization of national life. Within our system of freedom—of work and movement—we cannot impose coercive measures to block people from coming to Mexico City or to expel them. But we can take measures to encourage them to move to new poles of attraction that are being developed in other regions.

Many millions of Mexicans do not produce or earn enough to live. This is why subsidies were started. They seem to paper over a basic imbalance between population and resources.

De la Madrid: We are convinced that we should reduce our rate of population growth. In the 1960s the population was growing by 3.5% yearly. Today the rate is going down, and we intend to reduce it to 1% by the end of the century. Over the past decade the government has been supporting family planning, and this will continue.

It is true that many of our people live at the subsistence level. But many others have achieved standards of living that we could not have dreamed of a few decades ago. We also must take into account the improved capacity provided by technological innovation, in Mexico and throughout the world. Thus, with better use of our own natural resources and with improved technology, we can continue aspiring toward dignified standards of living for all our people, even when this means changing many patterns of past behavior.

Some critics say the basic problem in Mexican economic policy is the domination of the public sector over the private sector.

De la Madrid: Mexico wishes to continue living in a mixed economy and will take measures to ensure that the public and private sectors coexist. We are introducing more realism into pricing policies to ensure sufficient profitability for private business to work and invest. We are promoting a reasonable equilibrium between the public and private sectors by helping companies with their financial difficulties, by recognizing the realities of prices and by stimulating private activity through fiscal, credit and tariff policies. Over the next few months, once we pass the worst phase of our economic crisis, I expect the private sector to resume its role as a force for economic growth. As for prices, we cannot free them all at the same time because this would accelerate inflation. But I must remind you that in December, the first month of my government, we freed half of our price controls.

Many thanks, Mr. President.

De la Madrid: Your questions penetrated our reality. They are my questions as well. I ask myself them every day.



"From the highways you can see groups of peasants in the open fields kneeling around statues of the Virgin, desperately praying for rain. It did not rain last year, nor this year either. If it does not rain by mid-June the crops are lost. . . ."

Geography is destiny.

In interviews with reporters from the U.S., Mexican Treasury Secretary Jesus Silva Herzog has repeatedly said: "I don't think Mexico is capable of living with a stagnant economy beyond 1984." He said it again in an interview with *FORBES* in his spacious offices in Mexico City's colonial-era National Palace. He was giving a clear message to Mexico's creditors. It was: If you squeeze us too hard or too long, you will end up losing everything.

Yet Mexico continues to struggle bravely to put its financial house in order—imposing tough sacrifices on business and consumer alike. To its credit, it is doing so with a will that the U.S. Congress has failed to display in curbing fiscal extravagance in this country. So why does the principal architect of this austerity, the urbane Silva Herzog, harp constantly on the limits to this austerity? Because he is aware of the political realities of his situation.

It is easy enough to say that wasteful government spending, egregious policy errors and shameful corruption are at the root of Mexico's current near-insolvency. All this is true, but it is not the whole story, nor does it get to the root of the situation.

Where did Mexico go astray after 40 years of economic growth that was one of the wonders of the world? Why did its public sector deficit zoom from 3% of gross domestic product in 1970 to 18% in 1982, while inflation went from 5% to 100%? Inflation, swelling deficits and overconsumption are global problems today, but an event specifically Mexican also contributed to the end of stable growth. This was the student demonstrations in several cities that preceded the 1968 Olympics. These uprisings led to the death of an estimated 200 people when the army and security forces attacked demonstrators in Mexico City's Plaza of the Three Cultures.

The demonstrations shook the ruling politicians and brought shivers of terror to a people aware of the potential for violence that always lurks just beneath the Mexican surface. Novelists and poets have long recognized that there is an almost mystical tendency to violence penned up in Mexico—and sometimes it bursts out.

The politicians responded by yielding more and more to "populist" demands. And what does "populism" really mean, stripped of its rhetoric? It means taking money from investment and putting it into the stomachs and pockets of the people. It has its virtues, but it also has its delayed price. This new surge of populism led to what many

Mexicans now call the *docena trágica* (the tragic dozen years) under the presidencies of Luis Echeverría (1970-76) and José López Portillo (1976-82). This is not to say that the ordinary Mexican was rolling in affluence during those years. He certainly wasn't. But with resources scarce and population soaring, the nation could ill afford populist demagoguery. Sacrificing investment for consumption is dangerous for any economy, but especially bad for Mexico. Why? In a word: Water.

When writing about Mexico, most journalists concentrate on the surface events—the price of oil, corruption, industrial inefficiency, the crushing burden of international debt, the flight of funds abroad. They rarely mention water. And yet water is in the most profound sense Mexico's greatest need. The nation has plenty of land, but it is desperately short of water. It is for the most part an arid land, lacking rivers and lakes. Short of water, it cannot wring from its soil sufficient food for its swelling population—75 million now, soon to be 100 million.

Under Mexican irrigation conditions, it requires 3,000 tons of water to produce 1½ tons of corn—enough to feed eight people for a year. The cost and difficulty of getting this much water severely limits Mexico's ability to raise food. This year Mexico will have to import half the grain it needs, thus losing precious foreign currency that could otherwise help service its debt, supply its industry and import badly needed capital goods. It's a vicious cycle. Lack of water drains away capital that otherwise might help solve the water problem.

History records that, along with an international financial crisis, internal drought was one of the factors that brought down the long dictatorship of Porfirio Díaz (1876-1911) and brought on the bloody Mexican Revolution that began in 1910. But now drought has become a permanent curse, not only because of Mexico's natural aridity but also because the population has grown so much faster than water resources.

Listen to Governor Tulio Hernández Gómez of the tiny state of Tlaxcala, near Mexico City. "The absence of water changes people's moods. From the highways you can see groups of peasants in the open fields kneeling around statues of the Virgin, desperately praying for rain. It did not rain last year, nor this year either. If it does not rain by mid-June, the crops are lost because corn planted after that is killed by the autumn frosts before it ripens. Peasants either plant corn or move to the cities."

Mostly they come to Mexico City, cradled in the central valley of the country. This valley was once largely covered with water. The lakes, coupled with the basin's fertile

volcanic soils, made highly productive by large-scale irrigation and drainage works, supported one of the world's largest urban centers by the 7th century A.D.—Teotihuacán, the ancient ancestor of Mexico City, with a population of 125,000.

But now there are 16 million people, not 125,000, and each year Mexico City adds 900,000 people, more than its entire population in 1920. "This city is an absurdity," says Elias Sahab Haddad, executive director of the Valley of Mexico Water Commission. "We know this. But it is a fact, a reality." On the average, the inhabitants of this overcrowded absurdity sleep six to a room—and a lot more than that among the two-fifths of the population living in squatter settlements. Even on a subsistence basis, they require vast amounts of water. In the Valley of Mexico the excessive extraction of water from underground beds has led to a steady sinking of the land on which the city is built, by some 30 feet during this century, forcing abandonment of important buildings such as the Basilica of the Virgin of Guadalupe, the national religious shrine. As for the ancient lakes, they are long vanished.

Mexico's creditors and friendly nations would do well to remember all this when Mexico appeals for debt extensions and for fresh loans. The problems facing any Mexican government are almost overwhelming.

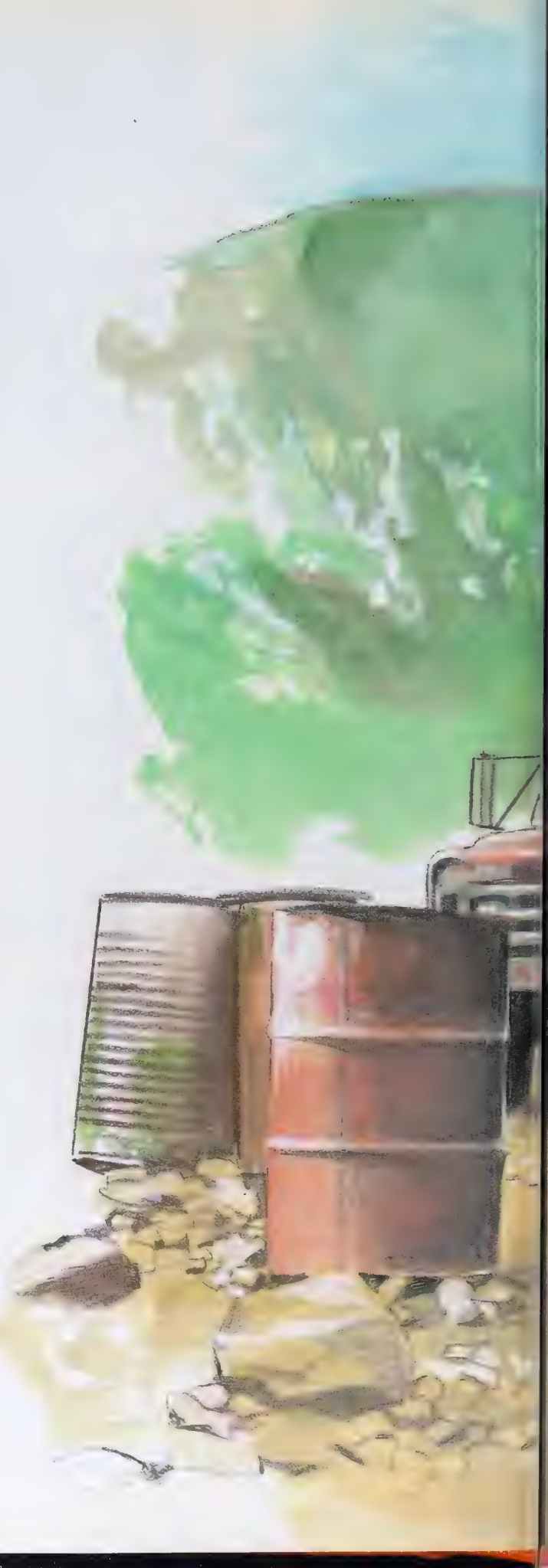
One of the most highly regarded people in President Miguel de la Madrid's cabinet is Silva Herzog. A potential presidential successor, in 1988, Silva Herzog coolly analyzed the situation for *FORBES* and explained how the government faces grave risks in striving to bring consumption down to a level the economy can afford: "There is no consciousness or understanding among the [Mexican] people that the government needs income to meet basic social needs. They tell each other that their tax money goes straight into the pockets of corrupt politicians.

"With oil and with the heavy foreign borrowing that the oil made possible, the government could avoid living within its means. The government could paper this over and still hand out more and more because lots of foreign money was coming into Mexico over the past six years: \$50 billion in bank loans and \$50 billion for oil exports.

"But now the easy money is spent, and we are deeply in debt. We have become somewhat unpopular by decreeing big increases in taxes and in prices of gasoline and electricity, which have been kept artificially low by state corporations for many years, and more steep increases are coming.

"We intend to meet our commitment to the International Monetary Fund to cut our public sector deficit from 18% to 8.5% of GDP this year. This is an ambitious and extremely painful undertaking. Last year the Mexican economy shrank by 0.2%. This year it will continue contracting by between 2% and 4% of GDP, and in 1984 there probably will be no growth at all."

But until Mexico regains its capacity to invest, it has little hope of dealing effectively with its hydraulic problem. This will require billions of dollars. Gigantic schemes are being implemented to pump water uphill into the Mexico City metropolitan area from coastal or intermountain valleys lying between 3,000 and 6,000 feet below the metropolis, over distances and on a scale never before attempted anywhere, in order to more than double the city's water supply by the year 2000. The first stage of this effort, the Cutzamala System, already is partially complete and, when finished, will pump 19 tons of water per second uphill to an additional height of 4,100 feet. But by the time it is finished, Mexico will need yet more water and more water.





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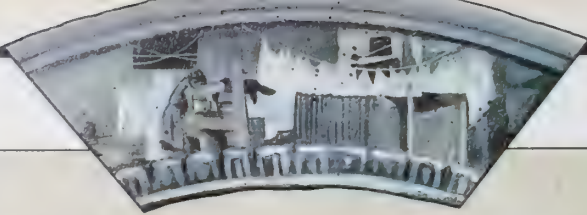
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"He is talking about the possibility of bloodshed, of possible revolution, of the potential influx of millions of Mexican refugees into the U.S. Mexicans know only too well that when things go wrong in their country they can go very far wrong indeed."

Technologically it is feasible to build such projects, but financially it is a crushing burden for a society that needs so many other things, too, and has so little capital available. The capital and operating costs of these efforts are very hard to measure in money because the Mexican peso is so unstable now in terms of the world's major currencies. The energy costs probably are more meaningful. If gas or heavy fuel oil were used to pump 19 tons of water per second over these heights and distances, at prevailing efficiencies of oil conversion and pumping, then 4.3 million barrels of oil would be absorbed yearly at a cost, in terms of forgone exports, of \$125 million at the current OPEC benchmark price of \$29 per barrel. For the nearly 55 tons per second of new water flow now planned, the energy cost for pumping alone would be \$362 million per year.

"We cannot pay for the pumping of water to Mexico City," says Andrés Moreno Fernández, head of the city's water system. "Instead, we must stop the growth of the city." And not only Mexico City suffers. Some 16 million urban Mexicans live in squatter colonies where many depend for water, not on pipes or wells, but on a weekly visit by a water truck—and the truck doesn't always come. But still people pour into the cities, seeking food, water and a chance at earning a few pesos.

The failure to manage water resources has helped to destroy many civilizations. It may sound melodramatic to people in the U.S., who take water for granted, but many Mexicans are asking each other whether the PRI regime, which has ruled Mexico for more than half a century, is now reaching that stage of hydraulic disaster. Water and food are closely related. Mexico's politicians and technocrats have been very active on the food supply side. Over the past half-century they have more than doubled the area of irrigated land for farming. However, because of fast population growth, the irrigated acreage per capita is less than half what it was 50 years ago. Moreover, all the easy dam-building and irrigation projects have been done, while the population keeps growing. In other words, both in the city and the countryside, Mexico has entangled itself in the hydraulic trap while following the commendable and sensible goal of trying to keep Mexican bellies full.

Food and water were not the only priorities in the post-1968 surge of spending on subsidies to consumption. These were years of giant giveaways. To facilitate them, the government systematically enlarged its role in the economy. When they can't enlarge the bureaucracy anymore, politicians can do the next best thing for patronage by absorbing private business into the bureaucracy. In these

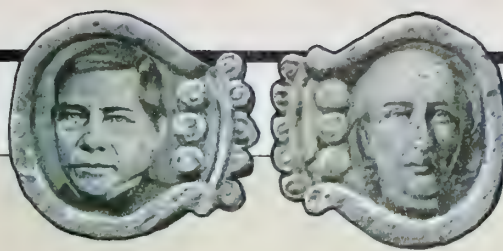
years the number of state corporations grew tenfold, from 84 in 1971 to 845 in 1976 alone, while subsidies and transfer payments rose from 3% of GDP in 1970 to 15% in 1982. "Until recently each big-spending presidential administration was succeeded by one of austerity that cleaned up the mess," a leading physician explained. "Since 1970 we have had two big-spending governments in a row."

"Besides direct spending, there were vast price subsidies to keep the price of necessities in check. Our policies of excessive subsidies gave us the problems we have today," says Planning and Budget Secretary Carlos Salinas de Gortari, a small, wiry, 35-year-old political economist with a Harvard doctorate. These subsidies embrace a bewildering variety of goods and services—from corn and sugar and gasoline to water and electricity and rail and bus transportation. There are even public coin telephones costing less than one-seventh of a U.S. penny per call (\$0.0013). Ramón Aguirre Velázquez, the presidentially appointed mayor (*regente*) of Mexico City, told *FORBES* that "these subsidies are part of a redistribution of national wealth to achieve social justice." At the cost, alas, of badly needed private and public capital investments and, ultimately, of national solvency.

Such subsidies, improvident though they were, helped keep the political peace after the violence of 1968. So when Mexico's Treasury Secretary warns that there are time limits to his government's ability to impose austerity, he is not only complaining about the political inconvenience involved. He is talking about the possibility of bloodshed, of possible revolution, of the potential influx of millions of Mexican refugees into the U.S. Mexicans know only too well that when things go wrong in their country they can go very far wrong indeed.

They are only too aware of the events that overwhelmed the long dictatorship of Porfirio Díaz and led to a civil war that dragged on for nearly two decades and killed or starved over 2 million Mexicans. It was a civil war in which U.S. citizens died. At one point, in 1914, U.S. troops occupied the port of Veracruz. Later the fighting spilled over into the U.S. Southwest when Pancho Villa's guerrilla forces raided New Mexico and General "Black Jack" Pershing led U.S. soldiers across the border in retaliation.

All this was long ago, but there are parallels between then and now that are close enough to worry thoughtful people on both sides of the border. Too much, of course, can be made of historical parallels. Miguel de la Madrid is no Porfirio Díaz, and for decades Mexico has had one of the world's highest rates of economic growth. The development of its oil resources provides a



"It is a flight from reality to expect countries like Mexico and Brazil to divert up to 5% of their annual national incomes and a much larger share of their foreign exchange earnings to paying interest on foreign debts."

huge new source of wealth. Since its revolution, whose violence lingered on until the 1930s, Mexico has enjoyed a political stability matched in the hemisphere only by the U.S. and Canada. It is Mexico's good fortune that—in spite of the well-known larcenous tendencies among its politicians—it has a trained, talented leadership, equal in some respects to any in the world. The ruling party, the PRI, is to the Mexican Revolution what the Vatican is to St. Peter. The party rules in a direct succession from the middle-class leadership of the old revolution. The leadership is continually renewing itself with young men and women.

President de la Madrid himself is only 48 years old. Several cabinet ministers and state governors are much younger, while party chieftains often are in their early 30s.

But while there are some things to be grateful for in present-day Mexico, anyone who thinks the crisis has passed is deluding himself. President de la Madrid, just nine months into his six-year term of office, must move fast to restore solvency before the necessary austerity becomes intolerable. His task is made trebly difficult by the ruling party's slackened grip on the reins of power. After liberalizing the election law over the past decade—partly in response to protests after the 1968 massacre—the long-ruling PRI has been suffering both losses and unaccustomed close calls in state and local elections. One obscure town in Oaxaca state has actually come under Communist rule, with backing from Salvadoran peasants camped there. Just last month the PRI lost control of capitals in two key northern states—Chihuahua and Durango—as well as Ciudad Juárez, a border city of almost 1 million people. In these same northern states—where, not incidentally, the Mexican Revolution erupted—the PRI faces a strong challenge from the conservative, Catholic-oriented *Partido de Acción Nacional* (PAN). Conservative PAN may be, but its growing strength limits the president's freedom of action.

Dealing from a declining position of power, with this legacy of other presidents' mistakes and with the ancient problem of water, is a crushing job. Whether sitting under a tent hearing peasants' complaints or sitting in his air-conditioned offices dealing with big problems of economics and politics, President de la Madrid is acutely aware that hell hath no fury like a populace suddenly deprived of the largesse it has grown accustomed to.

For nations, geography is destiny, and Mexico's geography is particularly grim. Writing nearly 180 years ago, the German naturalist Alexander von Humboldt reported:

"In the whole equinoctial part of Mexico there are only small rivers. . . . The narrow form of the continent pre-

vents the collection of a great mass of water. . . . Saline substances cover the surface of the soil. Through this abundance of salt, the table land of Mexico bears a great resemblance to many places in Tibet and the saline steppes of central Asia."

Humboldt was writing about a Mexico with 5.8 million inhabitants—sparsely populated like Tibet and central Asia. But this same arid land today must support 75 million people. This is not to say that Mexico cannot support a large population, but it cannot do so without huge capital expenditures for hydraulic works, for agriculture, for job- and capital-creating industry. Whence is the capital to come, while at the same time keeping the populace minimally content? That is the grim geographic and financial reality.

The foreign lenders who sent \$81 billion to Mexico with virtually no strings attached still delude themselves. It is obvious that Mexico and other developing countries do not have, and never had, the cash-generating capacity to repay the foreign loans they have piled up over the past decade. The money is gone. The interest burdens alone have become too big to manage. It is a flight from reality to expect countries like Mexico and Brazil to divert up to 5% of their annual national incomes and a much larger share of their foreign exchange earnings to paying interest on their foreign debts continually over the next decade or two. Payments on this scale would wipe out their chances to earn an economic surplus that must be invested in meeting urgent national needs.

Mexico is trying to meet its obligations and impose a degree of discipline on government spending, but we in the U.S., should listen carefully to Treasury Secretary Silva Herzog when he says: "I don't think Mexico is capable of living with a stagnant economy beyond 1984. This would carry an additional risk of social and political instability."

Abstract words, those: "social and political instability." What do they mean? They mean that decades of peace and progress in Mexico could end in bloodshed and disorder, with incalculable consequences for the U.S. In the long run, helping Mexico to handle her horrendous problems is much more useful to the U.S. than collecting bank loans to the last peso. And how can the U.S. help? By supplying food, technology and capital to our neighbor on favorable terms. This wouldn't be charity. It would be simple common sense. Of the Mexican-U.S. relationship, John Gavin, Ronald Reagan's ambassador to Mexico, recently declared: "It is a marriage without possibility of divorce." That says it all. ■

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Bob Levinson argues from experience that corporate managers have become bureaucratic robots. The answer?

Let them become entrepreneurs



Robert E. Levinson
Bring on the fun of leadership, the panic of failure.

By Subrata N. Chakravarty

WHEN ROBERT E. LEVINSON sold his family company, Steelcraft Manufacturing, to American Standard in 1969, he agreed with some misgivings to stay on and run Steelcraft as a division. He knew that few chief executives of companies acquired by others last very long as employees.

Yet for a while Levinson did better than merely hang on. He was promoted to group vice president in charge of several American Standard companies. So happy a fit was his job that he even wrote a magazine article called "How to Become a Hired Hand—and Like It."

Then, Levinson says, his illusion was shattered. Levinson had been pretty much left alone by American Standard to run his own show. But the reason, Levinson concluded, was that the company was in such trouble at the time that its senior management had far higher priorities than second-guessing one group vice president.

By the time American Standard got its house in order, however, a new layer of senior vice presidents, separating group vice presidents from top management, had appeared. They couldn't resist what Levinson considers the bane of American management: "corporate tinkering."

Where Levinson had got used to making his own decisions, he now began to get orders. In 1979, Levinson says, American Standard eliminated his job and fired him because he wouldn't mindlessly follow those orders. The company says that he left to pursue other interests. Beyond that it will not comment.

Now in the hotel business in Florida, Levinson has distilled his experience at American Standard and his conversations with hundreds of other managers in large corporations into a book. Titled *The Decentralized Company*, it has been published by the American Management Associations. To compete with the Japanese, he argues, the U.S. will have to adopt radical decentralization in business—vesting decision-making at the lowest possible levels.

Levinson: Most corporation executives have no idea what it means to earn a buck or make a payroll. They never see cash coming in. They are playing Monopoly. It's not their money. So they have a tendency to pass the buck and pass inefficiencies on to the consumer. If you were to survey the man-

agers of big corporations, you'd find a very small percentage of them were ever entrepreneurs. Our business schools have glorified the M.B.A. We have turned out a lot of people with a lot of book learning who feel that they are experts—because of this book learning. Take some little guy who graduated from some school. All of a sudden he's given a chauffeured car and an airplane and perks and country clubs. He is having meetings around the country, around the world, at places he has never been before. That can go to people's heads. They can become very, very bureaucratic. They get a distorted view of what their job is and how it's to be done.

And so, down the line, we are creating robots. When a corporation is bureaucratically centralized, people are dehumanized. They are not given the opportunity to think. For example, take personnel departments. A local, regional or plant personnel manager must follow a prescribed corporate personnel administration program. There is no union negotiation, usually, because union contracts are handled by big daddy at corporate headquarters. Or take strategic planning. That's done by a standard set of forms, from New York, Chicago, wherever the headquarters are. Fill in the five-year numbers. There's no creativity. You just have to make the numbers come out. You spend lots of time on number-crunching and arguing about the fourth year, third quarter, and what it's going to show, instead of getting down to the nitty-gritty of the real world.

All right, you've got this highly bureaucratic, centralized business. What do you do about it?

Levinson: We try our best to think in terms of radical decentralization. We try to get the chief executive to make a policy decision about becoming decentralized, to analyze how to break the company down to the smallest feasible operating units, to delegate that responsibility to quality people. We try to get in the smallest possible unit enough of the brainpower to operate that unit as a separate corporation with its own policies, with its own programs, with its own cash needs. I would want the unit to generate its own growth. That means transforming the corporate headquarters into something like a banking institution to provide capital. The operating unit has to come to the bank and present its case but doesn't have to make reports every day. I am not advocating that in a unit of ITT everyone down to the janitor would make

his own decisions. We're talking about this question: Does the unit president have his opportunity to make the decisions? And operate the unit as a separate company?

Surely, there is an argument for centralization. How about labor negotiations, for example?

Levinson: Let me ask you something. What advantage does the vice president of labor at corporate headquarters have? All he's got is his job at stake. Isn't it just as easy for him eventually to give in to the union? Why not? He's a hero because he saved the company from going on strike. There's a big difference when you own the business. The entrepreneur is in it for the long pull, and it's his business. He's got to live with that situation. He can't leave his job. He can't say: "Well, I did it. Now I'll just go get another job someplace." He has a much greater stake than the person

"I want to give more authority to individuals to make or break the company and to give them the entrepreneurial excitement of leadership. In many American businesses, managers are so robotized they are running the company by a textbook or a policy manual."

who is mobile in the market. If he gives in, he has to live with it.

And with radical decentralization you are trying to bring executives closer to having to live with it.

Levinson: Precisely. I am trying to instill in the bodies, the human beings, the true sense of the entrepreneurial. I am trying to get more of that feeling because with that feeling comes the excitement of leadership, the fun of leadership, the panic of failure. In a centralized corporation, you have too much insulation from that.

How is this idea of radical decentralization different from the idea of profit centers?

Levinson: What I am talking about is the development of human beings, the things that we can do to make better leaders in American business: giving people more responsibility, more accountability, authority. Certainly when you radically decentralize you help force the profit issue, because people have to produce profit or get out. But when you are talking about a profit center, you are usually

talking merely of a unit that is evaluated in terms of operating income, and you're saying nothing at all about the development of human beings.

Why don't companies decentralize?

Levinson: It's scary when you are decentralized because you don't have the kind of control over everybody you have when you are centralized. Even when you are decentralized you can still make mistakes. Beatrice Foods is a decentralized company. They had problems, and now people are saying the reason is that they were so decentralized you never knew what was going on. Well, maybe they had the wrong people running the companies. Maybe they delegated the responsibility to the wrong people. It's the human beings that make up the company. You do a disservice to your company by not developing the right kind of human beings in your company.

What you are really talking about is good versus bad management?

Levinson: No. Because I think, for example, American Standard was very well managed. I think there are a lot of companies that are very well managed if you want to look at management as to income, growth, position in market, stability, all of the other aspects. I know a lot of other companies that are terrific in those respects. "Good" managers are people who are talking in terms of success in numbers. When you use the phrase "good manager," the only method that we have to measure whether a manager is good or bad is what his profit is, what his growth is—and what his return is in the stock market. I want to give more authority to individuals within the company to make or break the company and to give them the entrepreneurial excitement of leadership. And I am saying to you what is happening in many American businesses is that we have managers who are so robotized that they are running the company by a textbook or a policy manual and really don't have a chance to exercise their skills in management and are bored to death, are tickled to death to retire, are counting the years until they can get out, because they hate their job. It's a job. They do it and they go to work, but they are not excited and thrilled. And they don't have that blush of excitement that they should have. I want to see more companies delegate the responsibility, with accountability, to lower-level people so that they can experience the excitement of management. That's the key. ■

Some states try to protect investors from fast-talking stock promoters. But in an era of deregulation, "merit" laws are fading fast.

Big Brother backs off

By Richard Greene

BACK IN 1911, Kansas legislators decided that their citizens needed protection from unscrupulous stock promoters. The idea caught on, and a number of other states soon set up programs that required officials to approve new stock offerings. These regulations are collectively known as blue sky laws. The idea was to prevent folks from investing in shares as worthless as a piece of the sky.

Congress then created the Securities & Exchange Commission, in 1934, on the premise that most any investment can be offered to the public if the risks and other material information are adequately disclosed. But the state blue sky efforts lived on. And now, with deregulation popular nationwide, "merit" laws, which set acceptability criteria for investments, are under increasing attack. Critics gleefully point out that Massachusetts wouldn't allow Apple Computer to sell its initial offering in that state.

At the moment, 36 states still have merit laws and about half rigorously enforce them. Illinois, Iowa and Wisconsin, however, are eliminating or reducing their merit regulations. And the Securities Industry Association is targeting other state legislation for attack.

The dispute is straightforward. Merit law backers argue that many individuals are not sophisticated enough to evaluate the worth of a new issue. "Investors do not read or un-

derstand a prospectus," says Texas Securities Commissioner Richard Latham. "Securities are distributed by people who are compensated by commission and will sell anything."

But not every bureaucrat takes that position, even though a fair number of public employees do make their living regulating investments. Illinois Secretary of State Jim Edgar is happy that his state is abolishing merit laws. "Government really shouldn't try to play Big Brother in telling investors that one stock is good and another one isn't," Edgar argues. "They're all risky. As long as you have complete and honest disclosure, you should let the investors make up their own minds."

Regulators in Washington are quick to agree. "The whole system of federal

securities regulation is philosophicaly at odds with the notion that a state government official should pass on the quality of a security registration," explains an SEC official. Another important point is that merit laws may actually keep some honest but risky ideas from being funded.

What criteria are the states using? Statutes vary, but here are provisions that pop up repeatedly:

- *Cheap stock.* Merit states frown on companies in which the selling parties continue to hold a large number of shares purchased far under the market price. "It's not that cheap stock is bad because entrepreneurs profit," says Joseph Schoeberl, commissioner of securities in Missouri, a strong merit state, "but too much cheap stock in the market can hurt the people who paid the public offering price."

- *Excessive compensation.* If too much of the money coming from a new offering is going to the underwriters and too little is going into the company, merit states may not approve an issue.

- *Options and warrants.* Again merit state commissioners say they're not out to stop anyone from making money. They are just concerned that if too many of the company's principals have the right to buy new shares at a cheap price, outside investors could be hurt.

These are certainly reasonable considerations in evaluating a new issue. But critics of merit laws are not often impressed by the officials who make such judgments for the public. "It's overwhelmingly the opinion of industry people that these administrators are undertrained, inadequately staffed, poorly funded and philosophically inflexible," says Stephen Blumenthal, the director of regulatory affairs for the Securities Industry Association. "The end result is that we do not see any addition to investor protection coming from the state regulatory commissions."

Naturally, the state regulators disagree. But it may be a moot point. The legislative debate is not going to center on the capabilities of securities commissioners. Instead, the issue is whether the good of protecting some investors outweighs the potential evil of keeping some entrepreneurs from getting a start. Given today's political climate, more and more merit laws will probably be wiped off the books. ■



Taxing Matters

Lessors say the Treasury is going to bring back the problems of safe-harbor leasing. But is that their real complaint?

Pro bono publico

By Aaron Bernstein

REMEMBER THE RUMPUS a few years ago when safe-harbor leasing let companies trade tax benefits like children swap bubble-gum cards? It might be a surprise, but leasing professionals like General Electric Credit Corp., Security Pacific Leasing Corp. and BankAmeriLease Group were not unhappy when Congress ended such deals. Why? Because they were an alternative to leasing deals for companies that couldn't use up all their tax benefits. Now the Treasury Department is working on a new set of regulations that may once again liberalize leasing. Lessors, however, are screaming that they don't want this help, because they're afraid of yet another congressional backlash. "More liberal rules will create an outcry against leasing and then Congress will hit us," says Gary Wendt of GECC. Sounds reasonable. But there's a lot more to this curious situation than meets the eye.

The controversy began late last year when Treasury officials decided to clarify 1975 IRS definitions of so-called true leases. These rulings provide strict guidelines for negotiating terms of a lease. But the courts effectively liberalized the IRS language, and the revisions recognize it. The Treasury move should make both leasing and IRS audits easier.

Now listen to John Chapoton, chief of tax policy at the Treasury. He says it isn't protection from Congress that

lessors want, it's protection from new competitors they might face if leasing becomes simpler. "The leasing companies like to stay in the driver's seat," he says. "More certainty in the rules would mean more lessors coming into their game."

To prove that new regulations would invite a congressional backlash, lessors have taken the unusual step of getting 14 congressmen to protest the still unpublished guidelines in a letter to Treasury Secretary Donald Regan.

How come? Because the new regulations do pose serious problems for the leasing industry. They may eliminate a major advantage that lessors have over lessees with regard to fixed-price purchase options. When a leasing contract is signed, the lessor sets the rent based on an assumption of the leased item's worth at the end of the contract. The less the assumed worth, the more expensive the lease. If, at the end of the contract, the item turns out to be worth more than was assumed, it's a windfall for the lessor.

The residual value of the leased asset, however, isn't set down in the contract. If it were, and the item turned out to be worth more at the end of the lease, the lessee could benefit by getting a bargain. Under the new rules this might happen. Treasury revisions may permit lessor and lessee to negotiate a fixed value that the asset will sell for when the lease is up. "That," says Thomas Angstadt, director of project finance at American Airlines, "takes a



trump card away from the lessors."

All this is very important for lessors and lessees. But you can't expect a controversy over fixed-price purchase options to grab the public's imagination. These are issues that get into tax journals, not the *Wall Street Journal*. To help fight its battle, the leasing industry has tried to come up with a more selfless argument.

Nobody seems to admit that they do things out of self-interest anymore. It's always pro bono publico. Naked greed, anyone? ■

Containing Container

When the Supreme Court handed down its decision in *Container Corp. v. Franchise Tax Board (California)*, corporate tax experts hit the decks. By a vote of 5 to 3, the Court upheld the so-called worldwide combination unitary rule. This doctrine, now used by 11 states, can expose profits of U.S.-based multinationals to taxation in states where they do very little business. If your company has some operations in California, for example, you could find your Brazilian profits being taxed in the Golden State.

But there may be silver linings for some. "If foreign operations aren't going well," says Robert Feinschreiber, a lawyer who advises firms on unitary taxes, "a company could even come out ahead," since it may pay less in state taxes if it has overseas losses.

Even where there are taxable foreign profits, all hope isn't lost. To be unitary, a company must have similar businesses worldwide. If an oil company has a banana plantation in Haiti, it might beat paying unitary taxes. Thus Feinschreiber advises avoiding broad claims. An annual report boasting company A is a "worldwide integrated widget company" could quickly bring the unitary taxman. Such a description was used in court against Container Corp. Better to talk of "thousands of specialized products."

Another gambit is to look for "planning opportunities," as the experts euphemistically call them. All unitary taxes involve ratios that compare a company's payroll, property and sales in-state with those out of state. Judicious arrangements of these elements could minimize payments.

Meanwhile, says Ruurd Leegstra, state tax expert at Coopers & Lybrand, firms should lobby Congress for a law banning worldwide combinations. He thinks companies have ignored this, hoping for a favorable Supreme Court decision. "Sure, we lost the battle," he says, "but the war isn't over."—Laura Saunders

CAN YOU FIND RISKS IN IT

No matter what business you're in, from banking to satellite communications, from petroleum to wind farms, from medicine to robotics, the computer chip is unavoidably a basic part of how you do business. And if you do business.

In the greatly magnified chip shown here, error is easy to spot. Potential risk is not.

How, for example, does an insurance company identify and analyze the infinite risks associated with technological developments like this over the course of years to come?

How do you insure the billions of microscopic chips that help fly airplanes, power pacemakers, manage assembly lines, transfer bank deposits and perform a thousand other vital functions every day?

At AIG it is our business to understand the miracles as well as the dangers inherent in trusting the nation's economy to the ubiquitous microchip.

That's why our engineers and underwriters are among the industry's most experienced in evaluating the newest and most complex challenges High Tech companies can offer.

After all, if business is going to move forward, we have to be ready to underwrite the necessary risks. The High Tech revolution won't stop just because we don't know what dangers it may bring.

For over 60 years the AIG Companies have been helping to protect investments which have built the future. We know that if business is to take advantage of what science discovers, we have to be ready to assume the necessary risks.

Our experience in over a thousand different fields has made us one of the most successful and innovative international insurance organizations in the world. Today, this not only means looking to the future, but knowing how to assure your place in that future.

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THE AIG COMPANIES: American International Underwriters, American Home Assurance Co., Commerce and Industry Insurance Co., National Union Fire Insurance Company of Pittsburgh, Pa., American International Life Assurance Co., North American Managers, New Hampshire Insurance Co. and over 230 other companies operating around the world to meet your insurance needs.

THE HIGH TECH S PICTURE?



Faces Behind The Figures

Edited by John R. Dorfman

Acid test

Edward Addison can't jog because of a bad knee, so he rises at 5:15 each morning to walk five miles with his wife before starting work around 7:30. This isn't to impress the boss, because Addison is the boss. Until recently he ran \$357 million (revenues) Gulf Power Co., based in Pensacola, Fla. Now he has traded in his 17-foot boat and moved to Atlanta to become president (and shortly CEO) of Gulf's parent, The Southern Co., the \$5 billion utility holding company whose subsidiaries sell power to most of Georgia and Alabama and to parts of Mississippi and Florida.

Southern's board surprised both insiders and outsiders by tapping Addison, rather than the CEO of either of Southern's two larger subsidiaries, Georgia Power and Alabama Power. One reason, perhaps, was that he had

spent some time with Southern Company Services, the support firm that provides Southern's four operating companies with engineering, computer and planning help.

In November, Addison will succeed CEO Alvin Vogtle Jr., the man whose World War II experiences provided the basis for the movie *The Great Escape*. What Addison can't escape is the looming problem of acid rain, which some scientists have tied to sulfur dioxide and nitrogen oxides emitted from coal-fired power plants.

Southern generates more than 80% of its electricity from coal. If the federal government clamps on strict controls, Addison guesses it could cost his company around \$850 million a year, which might eventually be passed on to consumers as a 20% rate hike. He calls for more study, saying that the acid rain problem isn't bad enough now to justify "pushing the panic button."

Except for that looming cloud, things at Southern have been looking up. Last year the company posted its best results in years, earning \$472 million and plowing more than 4% of that back into stockholders' equity. The biggest bright spot was an Alabama Supreme Court decision that gave Alabama Power some relief from

hostile regulators. Another help was increasing sales of power to other utilities. Those "off-system" sales will peak in the late 1980s, as new coal-fired and nuclear plants (one of the latter named after Vogtle) go into operation. Around 1990, Addison says, the construction program on which The Southern Co. has been spending over \$2 billion a year will tail off. That's when he hopes earnings will perk up and Southern's stock (now attractive only for its 11% yield) will start trading above book value.—J.R.D.

Get into enzymes

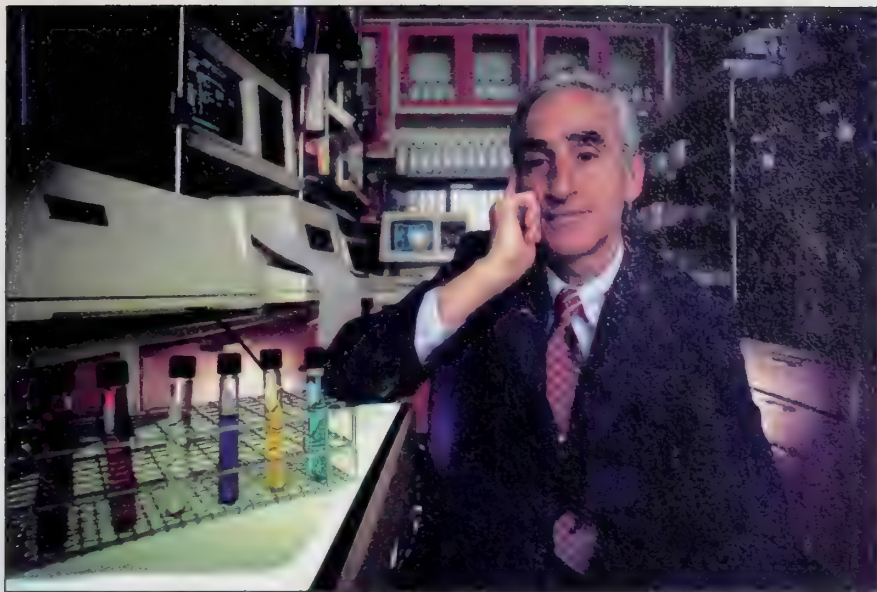
Remember the famous get-into-plastics advice from the motion picture *The Graduate*? In the pharmaceutical business, today's hot word is "enzymes." And probably few big drug firms are more involved in enzyme research than \$3.1 billion (sales) Merck & Co., a research powerhouse that spends 10.5% of its sales on R&D. That's heavy, even for a drug manufacturer.

Not entirely by coincidence, P. Roy Vagelos, Merck's affable 53-year-old director of research, won an award from the American Chemical Society for enzyme chemistry work early in his career. But even if he hadn't been



President Edward Addison of The Southern Co.

Coal is the source of power—but also of potential trouble.



P. Roy Vagelos, Merck & Co. research director

If he hadn't been interested before, he would be now.

interested in enzymes before, Vagelos says, he would have been drawn into the area by its research potential now.

A knowledge of enzyme mechanisms allows a biochemist to look for the chemical that will zero in on an enzyme and inhibit its action. Find what inhibits the enzyme that contracts blood vessels, for example, and you can help people with high blood pressure. "It would be the closest to the way the body itself would regulate blood pressure," says Vagelos. Moreover, the more specific the inhibitor involved, the fewer the side effects are likely to be.

Merck is also working on enzyme research to combat arteriosclerosis by regulating cholesterol. If the right combination is found, says Vagelos, enzyme action could reduce cholesterol in the bloodstream by as much as 50%. Breakthroughs like that, he says, are "a new ball game—as dramatic as the first use of antibiotics."

The grandson of a doctor, Vagelos has the mien of a college professor—which he was for a time, at Washington University in St. Louis. He gobbles medical journals in his spare time the way other people read novels. "I like to send copies of articles to our younger chemists, microbiologists and other junior staff," he says, "and when I see them in the hall we discuss it." Especially if it has to do with enzymes.—Jon Schriber

Runyon-san

When Marvin T. Runyon worked on a Ford assembly line 40 years ago, he was a member of the United Auto Workers union. He isn't wearing his

union button these days.

Runyon, 58, is president and chief executive of Nissan Motor Manufacturing Corp. U.S.A., which makes light trucks in Smyrna, Tenn. Did Nissan pick Smyrna because Tennessee is a right-to-work state? Oh no, says Runyon. Climate and a dedicated work force were the major factors.



Marvin Runyon of Nissan Motor Manufacturing Corp. U.S.A.

The UAW doesn't give up.

Well, maybe. But it's interesting that Runyon—who retired from Ford three years ago after serving as head of its body and assembly operations—didn't accept Nissan's offer until it promised that the new subsidiary would be based in either Tennessee or Georgia. Both just happen to be right-to-work states.

Tennessee won the plant and jobs, says Runyon, partly because its cen-

tral location will make nationwide distribution less costly. Tennessee officials also pledged to help retrain local workers to use Nissan's highly automated machine tools and to upgrade roads in the rural community 15 miles from Nashville.

The \$660 million plant, Nissan's first in the U.S., began production in mid-June with 1,400 employees. It incorporates the most sophisticated of Nissan's Japanese manufacturing knowhow, such as a central computer to diagnose the problem with a malfunctioning robot anywhere in the plant, and prescribe the tools and parts to fix it. "We will compete on technology," Runyon declares.

His old union isn't giving up. The UAW has been vocal in its vows to organize the plant. How will Runyon keep it out? With "enlightened management," he says, plus wages and benefits comparable to those in the rest of the auto industry. "People in this area share the same traditional values, like hard work and loyalty," he says. Of course, hard work and loyalty are Japanese qualities, too, but that didn't prevent Nissan workers in Japan from unionizing. Will Runyon be able to keep them happier down in Tennessee?—Christine Donahue

What might have been

Waxing philosophical about financial reverses may be easier for those who nonetheless remain millionaires. Take Edward Piszek, once Chrysler's largest shareholder, with more than one million shares. Although Piszek bought his shares when they were depressed in the late Seventies, he had to sell too soon and missed perhaps

Faces Behind the Figures

\$28 million in potential gains.

A couple of years ago Piszek, now 66, was president of Mrs. Paul's Kitchens, Inc., a firm he founded in Philadelphia in 1946 with \$500 in savings and built into a \$150 million (sales) private company with around 25% of the U.S. frozen-fish business. Then he bought the Arthur Treacher's chain of fast-food fish restaurants, which floundered and threatened to sink Mrs. Paul's itself. Piszek was forced to sell the primary assets of Mrs. Paul's, including the brand name, to Campbell Soup for an estimated \$70 million in 1982. He got rid of Treacher's to some Ohio investors. Says Piszek: "It was a nightmare. See, I was an Eagle Scout, and after buying Treacher's, I was in a jungle. I met people I never knew existed in this world."

So, Piszek had to sell his Chrysler stock in 1982 before the market exploded. He got \$6 to \$7 a share instead of the \$35 a share Chrysler commanded recently. "The banks forced me," Piszek recalls. "They figured no one in my position ought to have such speculative holdings. I knew Chrysler had the right man in Iacocca. If I could have held on. . . ."

Now Piszek runs Emlen House Enterprises, all that remains of Mrs. Paul's. The firm has a film production subsidiary which produced a number



Edward Piszek of Emlen House
How to miss a \$28 million profit.

of documentaries with one of Piszek's friends, James Michener, narrating. The company also aided ABC in its production last Easter on the Pope, and the Vatican. Piszek still plays the stock market. Recent holdings include Xerox, Sperry, Exxon, the Signal Cos. and Pan Am.

His financial travails, he says, have left him "deeply philosophical"—even though he's still a multimillionaire. Ah, but for what might have been.—Martin Love

Where the old folks are

Emil and Robert Martini both started out as pharmacists, so they think they know what the man who runs the corner drugstore wants. So far, it's hard to argue with them. In the last five years, Emil, 54, and his brother



Emil (left) and Robert Martini of Bergen Brunswig Corp.

After 53% compounded annual growth, what do they do for an encore?

Robert, 51, have built Los Angeles-based Bergen Brunswig Corp., founded by their father in 1947, into a billion-dollar company. Bergen Brunswig supplies 6,000 drugstores in 15 states across the country with some 10,000 items.

Now the question is whether the Martinis can do as well in hospital supplies. Bergen Brunswig's hospital equipment division, says Emil, is where the brothers expect the greatest future growth, although the division generated only about \$135 million in sales last year, compared with \$759 million from the drug business. The trend for hospitals to join chains will help distributors, they think.

That growth will have to be spectacular if it is to match the Martinis' recent record. Total sales have increased from \$432 million in 1978 to

an estimated \$1.4 billion this year, and earnings have grown at a 53% compounded annual pace the past five years. That ranks Bergen Brunswig 15th in growth among the 1,002 companies in the 1983 *Forbes Annual Report on American Industry*. Not surprisingly, Wall Street loves Bergen Brunswig: The stock has gone from \$3 a share five years ago to \$34 recently, which works out to about 21 times estimated 1983 earnings.

One key to the Martini brothers' strategy, says Emil (who is chairman, while his brother serves as president), is demographics. "We look for areas with growing population and a disproportionate number of older people, who use roughly five times as many prescription drugs as the rest of the population," he says.

Another key is comprehensiveness:

Bergen Brunswig's aim is to be the prime supplier for everything a drugstore needs, from toothbrushes to cheap personal computers. The latter are distributed by Commtron, a \$120-million (sales) outfit Bergen Brunswig acquired recently. Bergen Brunswig also lets store owners plug into its own computers, which help them track inventory. A store manager can use a hand-held optical scanner (developed with Singer) to scan shelves, enter product numbers and reorder instantly from one of 50 distribution centers.—Barbara Ettore

Mailer in Swedish

Without even seeing the completed manuscript, Rolf Janson plunked down \$100,000 for the Swedish publishing rights to Norman Mailer's *An-*

WE DON'T MAKE STEEL THE WAY WE USED TO.

Commitment, quality, technology.

These words are bandied about a lot these days.

But, at U.S. Steel, we know that words just aren't enough. We started a Technology Implementation Program so good it's helping us to significantly improve productivity, quality, costs.

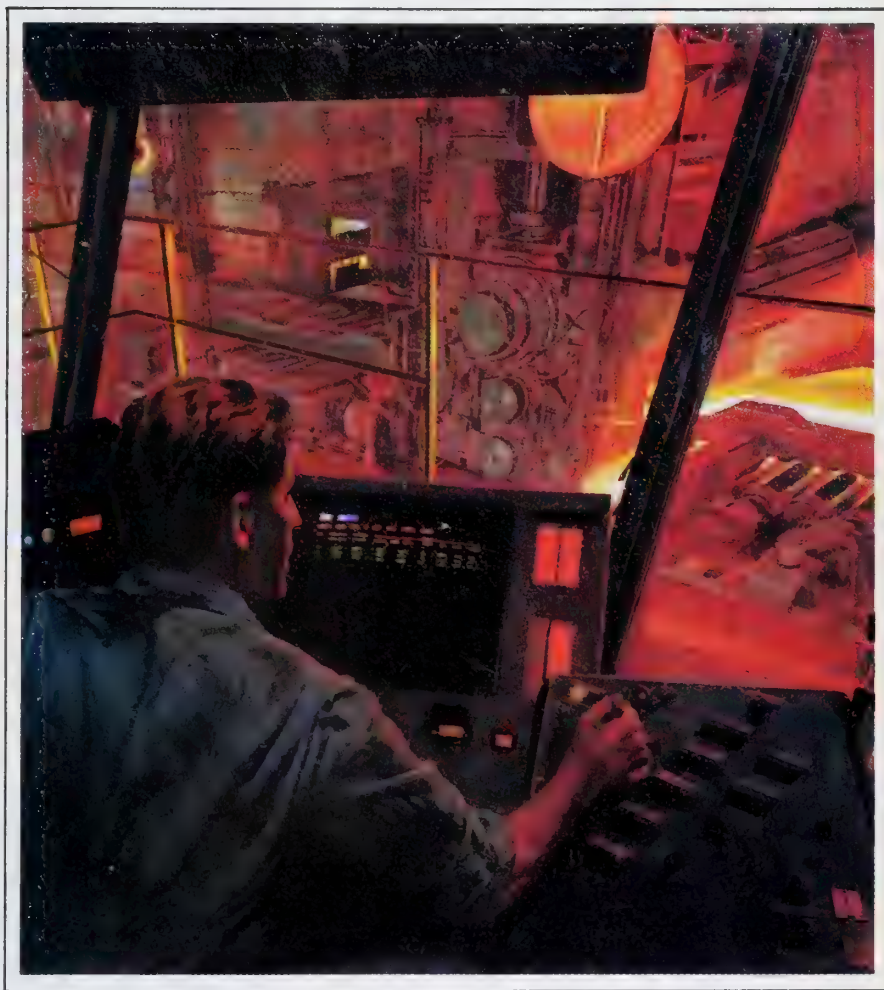
We've computerized and modernized.

We're bringing in the best technology — no matter where it comes from.

We also created a rigorous and far-reaching Quality Management Program. From the very top, our QMP permeates every process in every one of our steel mills. Quality is built in from the very start. And it's working.

U.S. Steel is and will remain America's number one steel supplier. And, in the last ten years, **we have invested well over four billion dollars in steelmaking alone** — considerably more than any other domestic steel-maker, diversified or not. We have modernized and improved steelmaking facilities and streamlined operations for maximum productivity. We continue our leadership in steel research and product innovation. There is, of course, more to do. And we plan to do it.

At U.S. Steel, our commitment is more than verbal. Steel is our last name, but it is our first priority.



Faces Behind the Figures

cient Evenings. That was the most ever paid for book rights in Sweden. But then Janson, 57, runs the largest book club in Sweden, privately held Bra Böcker, with over 100,000 members and 1982 revenues of \$25 million.

Why would anyone make such a blind investment? "I have read most of Mailer's books," Janson says. "*The*



Rolf Janson of Bra Böcker
\$100,000 for an unread book.

Naked and the Dead was fantastic, and if you can write like that, there are no risks to take."

Janson himself certainly has taken risks. Eighteen years ago he left his job with Bonniers, a big Swedish book and magazine publisher, to strike out on his own with Bra Böcker. He began by sending out a million pieces of mail advertising the fledgling club at a time when there were only 3.4 million households in all of Sweden. For a few months Janson and his wife and kids packed books in their kitchen and carted them to the post office in a wheelbarrow. Now eight trucks handle the 25,000 packages the company sends out every day.

About half the novels Bra Böcker publishes are translations and, of these, 90% are by American authors—not surprising since a large percentage of the books published in the world are written by Americans. Up to now, Bra Böcker's bestselling U.S. authors have been Isaac Bashevis Singer (*Passions*), Anne Tyler (*Search-*

ing for Caleb) and John Cheever (*Selected Stories*).

Janson attributes American writers' success in Sweden to their ability to spin a yarn. He also acknowledges that Nobel Prizes don't hurt. They have helped to boost the sales of Singer and of Saul Bellow, whose *The Dean's December* is another Bra Böcker property.—Jinny St. Goar

Baumol's disease

"Do you know how many mail deliveries there were each day in 19th-century London?" asks William Baumol. "Twelve, even on Saturday."

Baumol is no idle griper; he's an economics professor at both New York University and Princeton. His theory, which other economists have tagged "Baumol's disease," is that any service that is inherently labor-intensive will tend to rise in cost faster than the general rate of inflation. Unfortunately for municipalities, that description applies directly to such services as police protection, education and welfare.

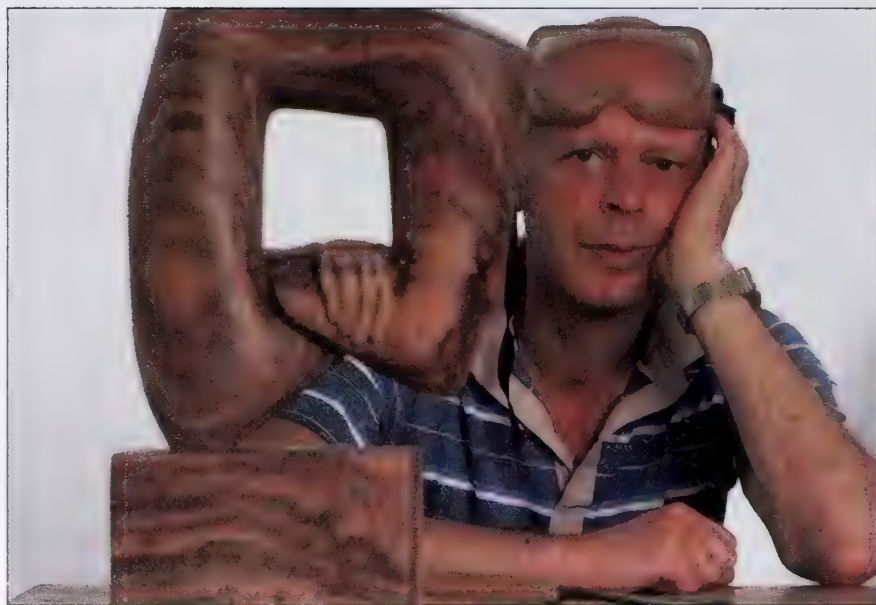
Mail-sorting computers or no, says Baumol, a postman can visit only so many homes per hour. A teacher can teach only so many kids per day. Welfare resists productivity gains because "you can't make people live on less

the streets are getting dirtier and why the arts are constantly in financial trouble: "You can't speak the lines in *Hamlet* twice as fast." It even explains, he says, why the cost of most computer services is no longer falling as rapidly as it was: Programmers' time, not hardware, has become the dominant expense.

Even parts of the U.S. economy not subject to Baumol's disease are falling behind, says Baumol, who recently directed research for a Committee on Economic Development study on productivity. A fundamental cause is the U.S. savings rate, which, while increasing, is still far lower than many other countries'. The Japanese are such tough competitors, he says, not because of big-happy-family management or oriental lifestyle, but because they save more, and thus invest more, than we do.

"Perhaps 80% of the difference in productivity gains between us and Japan," says Baumol, "is attributable not to quality circles, job tenure or the like, but to differences in investment rates." Despite improvements under the Reagan Administration, the U.S. tax code, he argues, still rewards consumption and penalizes investment.

Well, economists have been playing that tune for years. But now the 61-year-old Baumol thinks the time may



Economist William Baumol

Why are the streets dirty? Why is the mail late?

and less food." The result: Taxpayers groan about rising government budgets even while government services are pinched.

Baumol's disease, says Baumol, also explains a variety of problems that previously "were explainable only in terms of a villain"—for example, why

be ripe for reform. "The troubles of our steel industry and our auto industry," he says, "are forcing the government to rethink the issue."

What about Baumol's spare time? He spends much of it on a labor-intensive hobby: woodworking.—J.R.D.



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"Do you have one that can help me decide which is the one for me?"

You don't need a computer to decide what kinds of people want to buy a computer. They're people with a penchant for knowing more and a desire to get things done. The kinds of people who read *The New Yorker*. Which helps explain why so many computer manufacturers number *The New Yorker* among their most effective advertising calculations. Yes, *The New Yorker*.

THE
NEW YORKER

The oldest gambling town in America bears no resemblance to Las Vegas or Atlantic City. Thank heaven—and the horsey set.

Saratoga: the fifth season

By Thomas O'Donnell



It is a curious kind of traffic jam: Buses bulging with two-buck bettors are stuck behind Rolls and Mercedeses carrying the good, the bad and the beautiful, and trailers bearing prize Thoroughbreds. They are all enroute to one of the most elegant horse tracks in America. The location: Saratoga Springs, N.Y., a city of 25,000 in the lower Adirondacks some 170 miles north of Manhattan. The time is any afternoon in August. For that one month every year the population rises to nearly 50,000, many of them the cream of American society. "The rich have always had five seasons," explains one local proudly. "Winter, spring, summer, Saratoga and fall."

But there's a lot more to the oldest gambling town in the U.S. than horses and the horsey set. Some summer visitors come for the theater, music and dance at Saratoga's modern performing arts center, the summer home of the Philadelphia Orchestra and the New York City Ballet. Saratoga has been an institution since the 1830s, when the therapeutic powers of its mineral waters made it the queen of American spas.

Gambling arrived in 1861, when the country's first casino opened its doors. The Thoroughbred racetrack, which sports wooden Victorian spires and flower-filled boxes, came two years later, while the Civil War was still raging. During the Gilded Age a Saratoga tradition was born: an easy alliance between money new and old. Women brought so many hoopskirts that specially designed curved-top Saratoga trunks had to be invented to hold them. Wagers as well as waist-

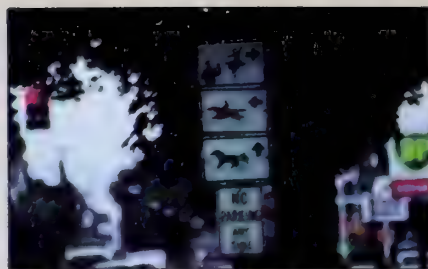
lines were substantial. Meals ran to nine courses. (Overeating could be cured with a quick trip to the spas.) And scandalous love affairs, such as that between Diamond Jim Brady and actress Lillian Russell, added to the town's glitter.

Such goings-on prompted Nellie Bly, the New York World's star reporter, to write an exposé entitled "Our Wickedest Summer Resort." That only made the place yet more glamorous and exciting. But what Nellie Bly could not accomplish in 1894, Senator Estes Kefauver almost did in the early 1950s. His investigation revealed extensive mob influence, prompting New York State to padlock the casinos. The mob moved out to more accommodating locales, such as Las Vegas. Society stayed. Yet old money alone was not enough to keep the local economy moving, and Saratoga was soon given up for dead.

In the early 1960s clean new money started coming, and the queen of the spas was reborn. Today it's no longer bars and bookies but rather boutiques and specialty shops that give Broadway, the historic main street, its life. Open-air restaurants, featuring such trendy fare as quiche, salads, imported beer and wine, number nearly a dozen. Antique and craft stores fight for space and the passerby's attention.

Unlike Atlantic City, another one-time playground for the rich, the town has retained its 19th-century atmosphere. "Saratoga hasn't had a face-lifting," says one frequent returnee. "She's like a successful madam. Proud of her sometimes notorious past and sure of her aging beauty."

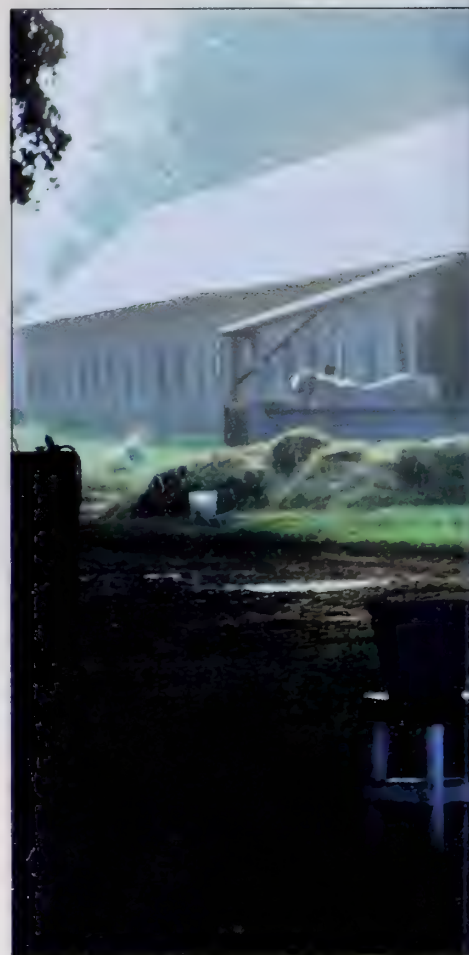
Unfortunately, some 19th-century landmarks like the United States and Grand Union hotels have been destroyed. But a visitor with a taste for the past can stay downtown at the



Street sign in Saratoga Springs
Horses, culture—but mainly horses.



The track at Saratoga
A Waterloo for champions.



Dedicated railbirds get up with the birds
to catch early-morning workouts



State-run Lincoln spa
A bath and a massage for \$13.



New York City Ballet at Saratoga Springs
Pas de deux amid the spas.



Gideon Putnam Hotel, next to the spas
"Proud of her notorious past, and sure of her aging beauty."



Older than Churchill Downs, tonier than Keeneland, and just a few hours from Manhattan, the track at Saratoga has no trouble attracting crowds.

Personal Affairs

Edited by William G. Flanagan

remodeled Adelphi, which boasts antique-decorated rooms and a three-story-high veranda. Equally elegant is the Gideon Putnam, situated next to the spas, golf course and performing arts center in Saratoga Springs State Park. By opening their windows at the Putnam, guests can hear concerts at the performing arts center, some 200 yards away.

This year the number of visitors is expected to top 600,000. Many come to hear jazz, rock and popular performers, such as Dolly Parton and the Grateful Dead. Health-consciousness has also generated renewed interest in Saratoga's spas. Although the spring water is no longer considered a cure-all, a bath and massage at state-run spas (it takes an hour and a half and costs just \$13) is relaxing. One spa, the Roosevelt, is fully operational year-round. A second, the Lincoln, is open through the months of July and August.

The town is even showing signs of becoming a winter resort. Some of the best skiing in New York and Massachusetts is only a half-hour's drive away. A new civic center featuring a \$5.5 million convention hall and 200-room hotel has won voter approval and may be completed by next June.

But, as in the past, August is the time and racing is the attraction. In that month the Thoroughbred track draws more paid admissions (some 678,000) and produces a bigger handle (\$75 million) than does the nearby, almost as elegant harness track, dating back to 1941, which is open seven months of the year and draws 620,000 with a handle of \$45 million.

On a typical August morning the town's plentiful outdoor cafes are jammed with people scanning everything from the racing tip sheets to the calendar of cultural events. Actually, culture was a Saratoga staple long before the performing arts center was built. Yaddo, founded in 1926, is an internationally known retreat for aspiring artists of all types. The town is also home to two colleges: private 2,200-student Skidmore, a former women's college that became coed in 1971, and Empire State, a branch of the state university.

There are actually three Thorough-

Personal Affairs

bred racecourses: the steeplechase, the grass track and a dirt track on which the prestigious Travers Stakes is held in August. True horse-lovers do not miss spending at least one early morning at the track, before the sun has burned off the rising mist. At 6 a.m. exercise boys run the hopefuls at full gallop. Watching them while eating a hearty, hot breakfast is a Saratoga institution.

The track still accepts \$1 bets, yet just across the street, bids on top-flight yearlings at the Fasig-Tipton auction run to \$1 million or more. Next to the spring sale at Keeneland in Lexington, Ky., the Saratoga auction is the most important in racing. Champions are bought and sold there. And the Saratoga tracks have been a Waterloo for many of them. It's the only place Man o' War ever lost (in 1919, against a colt named Upset). The great Secretariat also lost in 1973.

Few places are as filled with history, some of it important, some of it not, as Saratoga. In 1777 the battle that turned the tide of the Revolutionary War was fought there. In the 1830s the society column—a hand sheet to keep track of the daily doings of the swells—was invented. And in 1853 the potato chip was born at the Moon Lake House, which, sadly, burned down last fall.

Things to see

North Broadway and its row of cottages. These are stately, enormous Victorian mansions, some of the finest in America.

The National Museum of Horse Racing. Opened in 1955, the museum has one of the finest collection of jockey silks, racing pictures and memorabilia anywhere. Free.

Saratoga State Park. Some 200 acres of natural beauty, with tennis courts, one of the country's prettiest and best-kept public golf courses, two excellent pools, the baths and the Gideon Putnam Hotel.

Canfield Casino. In Congress Park,

downtown. The ballroom and reception room, which can be rented for private parties, are examples of mid-Victorian splendor. Museum on third floor open daily 9:30 a.m. to 4:30 p.m.

Saratoga Performing Arts Center. This \$4 million center seats 5,400 under cover and another 30,000 or so on adjoining lawns. Parking for 5,000 cars. Cultural and special events from Memorial through Labor days.

Polo. A new August attraction. Afternoon and evening games are played on Whitney Field every Tuesday, Friday, Saturday and Sunday. Adults \$3, children under 12 free.

Saratoga Harness Raceway. Open full time from April to November, with weekend racing in winter. Post time is 8 p.m.

Saratoga Race Course. Open only 24 days a year. The nation's oldest and perhaps most picturesque track. Post

Mrs. London's Bake Shop (33 Phila Street): Nationally known patisserie-café featuring full breakfasts. Café menu noon to 10 p.m. Espresso and cappuccino, as well as wine and beer. (518-584-6633).

Where to stay

Many August visitors rent private homes for sums beginning at about \$2,000. Two ways to find available homes are through ads in the local paper, *The Saratogian*, and through real estate offices. Hotel rates can run four to five times the off-season rates during August.

The Adelphi (downtown on Broadway): The last of the grand 19th-century hotels has been completely restored. Antique-filled rooms range in price off-season from \$55 to \$85, in August \$120 to \$160. The three-story balcony overlooks historic Broadway. (518-587-4688).

The Rip Van Dam (downtown on Broadway): Adjacent to renovated Adelphi. A casual, easygoing place for those not too demanding of the extras. Off-season rates range from \$17 to \$50, in August \$30 to \$120. (518-584-6100).

The Washington Inn (Broadway): Large hotel with tradition and good location. Harness track, Thoroughbred tracks and state park are close by. Off-season rates range from \$32 to \$54, in August \$50 to \$102. (518-584-9807).

Gideon Putnam (Saratoga Springs State Park): Although state-run, this is the poshest place in the area. The 85-room Putnam is within walking distance of everything in the park. Downtown is just two miles away, the Thoroughbred track 1¼ miles. Rates off-season \$67 to \$82, in August \$220 to \$340. (518-584-3000).

Now, index futures for small investors

Looking for a way to age your short-term gains on the stock market instantly into long-term gains? Who isn't.

But one hedge idea that will be getting a lot of hype is worth a long double look before you leap. The new wrinkle: index futures, specifically geared to the investor with a portfolio that does not total six figures. They are tempting, but buyer beware. In-



Mary Lou Whitney emerges for the ball
Cramming it all into the fifth season.

time in August is 1:30 p.m.

Dining

In August, getting a table anywhere is no mean feat. Make reservations early and expect up to a two-hour wait at the better places. These include:

The Country Gentlemen (Route 9): Gourmet food, mainly American-style, in elegant surroundings. Specializes in prime ribs, poached salmon and shrimp scampi. (518-584-0500).

Lillian's (Downtown at 430 Broadway): Named after actress Lillian Russell. Serves generous portions of seafood and prime western beef. Decor is Gay Nineties casual. (518-587-7766).

Chez Pierre (15 miles north on Route 9): Cozy French restaurant serves outstanding food. (518-793-3350).

Mother Goldsmith's (43 Phila Street): An old family-run restaurant serving breakfast buffets every August morning. Complimentary salad bar during lunch and dinner. (518-584-9772).



WHEN AMERICAN BUSINESS HITS THE ROAD,
AMERICAN BUSINESS DECIDES ON HILTON.



Personal Affairs

deed, in his *FORBES* column of July 18, David Dreman opined that financial futures are suitable only for "masochists and . . . wild-eyed dice players." He pointed out that with financial futures you can be right about the market and still take a beating because of the thin margins involved. Nevertheless, a lot of brokers are touting futures as a means of protecting short-term gains until they age into those juicy, lightly taxed, long-term capital gains.

Sniffing commissions, Wall Street has scaled futures contracts down to a size that smaller investors can afford—"mini" stock index futures, smaller versions of the contracts professional traders use to participate in broad stock market moves or to hedge against losses in their own portfolios.

The Chicago Mercantile Exchange brought out the first "mini" in mid-July. It reflects the Standard & Poor's 100-stock index, a market-weighted average of mostly blue chip issues with names like AT&T, IBM and General Motors. (Market-weighted simply means some stocks on the list are weighted more than others in coming up with the index.) The S&P's 100 is a miniversion of the S&P's 500, currently the most popular of the big index futures.

The Kansas City Board of Trade, which gave birth to the high-flying market for index futures a year and a half ago with its Value Line contract, plans to offer a "mini" version by Sept. 1. The Value Line index is an unweighted average of 1,685 common

stocks. Right now, the New York Futures Exchange doesn't plan a "mini" version of its contracts.

The appeal of these mini-index futures is threefold:

- They permit even small investors to bet on the direction of the market, with a cash outlay of as little as \$1,800 in the case of the S&P's 100.
- They allow investors to hedge their portfolios during bear markets without the expense of liquidating.
- They permit short-term speculation on market movement with favorable tax treatment. (Gains realized on futures trading are taxed at a maximum rate of 32%.)

How does all this work? Index futures work like other futures contracts, except that there are no pork bellies or gold or cocoa beans involved. Four times each year, in June, September, December and March, the

er than 162.35, you are ahead of the game by \$200 for each point.

In theory, the small investor can thereby cushion his portfolio against a big market drop, for example. If his stocks drop, the theory goes, so will the S&P's 100. And if he has hedged himself by shorting the index, he will have at least partially offset the losses. There is no guarantee that this index will reflect exactly what happens to his particular portfolio. For example, if the market goes up but the stocks you own go down—it happens, you know—you will lose both on your stock position and on your short position in futures. Some hedge.

To buy or sell one of the new S&P's 100 contracts on the Chicago exchange can cost as little as \$1,800 in cash or funds borrowed against the value of the securities in your portfolio. The Kansas City Exchange also plans an \$1,800 minimum on the proposed "mini" Value Line futures.

By contrast, the initial ante is \$6,000 for regular contracts linked to the broader S&P's 500 stock index. It's currently about \$6,500 on existing Value Line contracts, \$3,500 for futures on the NYSE composite. Obviously, these positions are highly leveraged—and that is why Dreman and others think they are so poisonous: If you are long in futures on 10% margin and the market drops even 3% you have to cough up

more margin. Otherwise they sell you out and you have lost half or more of your money and your hedge is gone as well.

Like other commodities, the borrowing costs of trading index futures affects prices. Since the contracts are so highly leveraged, interest rates are important. Low rates can mean more players, thereby affecting the index.

So, go ahead and take the plunge if you want to and can afford it. But know you are shooting craps rather than hedging.—Jill Bettner



contracts are "settled." In other words, you can buy contracts for 3-, 6-, 9- or 12-month periods. The price of the contract depends upon the current value of the index.

Each futures contract for the S&P's 100, for example, represents \$200 multiplied by the current value of the index. If the index is at 162.35, the value of the contract is \$32,470. A speculator may have to put up only 10% of the value of the contract to hold it (hedgers pay even less). If, on the settlement date, the index is high-

them upon delivery here. Some 1,500 U.K. dealers are participating, from Village Pine in Clwyd, Wales, to the exclusive London dealer, Bennison.

The Passport card carries no fixed credit limit (impulse buyers beware), but cardholders are carefully checked beforehand. All payments are due when the antiques arrive in the U.S. Membership fee is \$35 a year, after a one-time charge of \$55. Since the

cards were introduced last fall, about 5,000 have been issued, about 80% to Americans. Passport users avoid foreign currency transactions and have automatic access to the shipping services of Michael Davis, Ltd. (And the faster he ships, of course, the faster he gets paid.) For information, write to Passport, 29 East 61st Street, New York, N.Y. 10021.

Antique credit

Great Britain, always prime territory for American antique hunters, is more attractive than ever these days, thanks to the strong dollar. And to make things even more tempting, Michael Davis, a well-known U.K. shipper, has devised a credit card system that allows foreign buyers to purchase antiques in Britain and pay for



Fiji
5,727 miles



New Zealand
6,653 miles



Australia
7,495 miles

We'll go to great lengths for United Mileage-Plus members.

If you're a member of United Airlines' Mileage-Plus program, the friendly skies just got a great deal more friendly.

Thanks to Air New Zealand.

Because now you can fly a beautiful Air New Zealand 747 from Los Angeles to the South Pacific (or to London if you're headed in the other direction) and get full credit and more towards your Mileage-Plus awards.

Just think of it. Australia, 14,990 miles round-trip. New Zealand, 13,306. With a 25% bonus if you fly our expanded Pacific Class, the business class that received top ratings in the prestigious British magazine *Executive Travel*. First Class pays a 50% bonus.

And since one trip to the South Pacific usually leads to another, you can now take your Mileage-Plus awards on Air New Zealand, too.

And you know what that means, don't you? Another opportunity to fly the airline recently named best international airline for the third consecutive year in the well-known *Travel-Holiday Magazine National Travel Poll*. Air New Zealand.

We can put a lot of miles in your account, without going out of our way.



air new zealand

EPISTLE won't make you write like Shakespeare, but it may help you keep from sounding illiterate.

Technology

Edited by Stephen Kindel

Move over, Strunk and White

By Jon Schriber

IT IS PROBABLY just a coincidence that IBM is developing EPISTLE, its new word processing program, at a time when the quality of American education is under attack. EPISTLE (for "Evaluation, Preparation and Integration System for Text and Language Entities") is intended to do those things that increasing numbers of Americans are allegedly not being educated to do—correct not only spelling and grammar but style as well.

Still in the experimental stage, EPISTLE ultimately will perform a variety of style checks, from eliminating clichés to ending the use of awkward, archaic or pompous phrasing. Enthusiasts believe it will do much more—tell a writer's attitude or emotional state, for example, even his or her social and geographical origins, age and sex. "If you shove enough examples into the program, it can tell you that a letter was written by a 55-year-old Irishman," says Kenneth Bosomworth, president of International Resource Development, a Norwalk, Conn. market research firm.

That's a shade overenthusiastic, says Lance Miller, manager of language and knowledge systems at IBM's Yorktown Heights Research Center. But what Miller and other researchers at Yorktown Heights are doing is perhaps interesting enough in itself. Correcting errors in spelling is just for starters; any number of programs can do that. EPISTLE will also point out grammar problems as well, diagramming sentences as a school kid did on the blackboards of yore, then calling the writer's attention to any errors. "It's a rule-based processor that takes the text as input and applies the rules," says Miller. "Of

course, you almost need all of English grammar as the set of rules. And we have rules that cover about 85% of constructions."

But how does the program for style work? "You tell us what you think is good writing, give us 100,000 or preferably 500,000 words of stuff you think is really slick," says Miller. "Then we need some bad writing, and we input that. It is then possible to have the system take sentences one by one and crunch out what the pa-

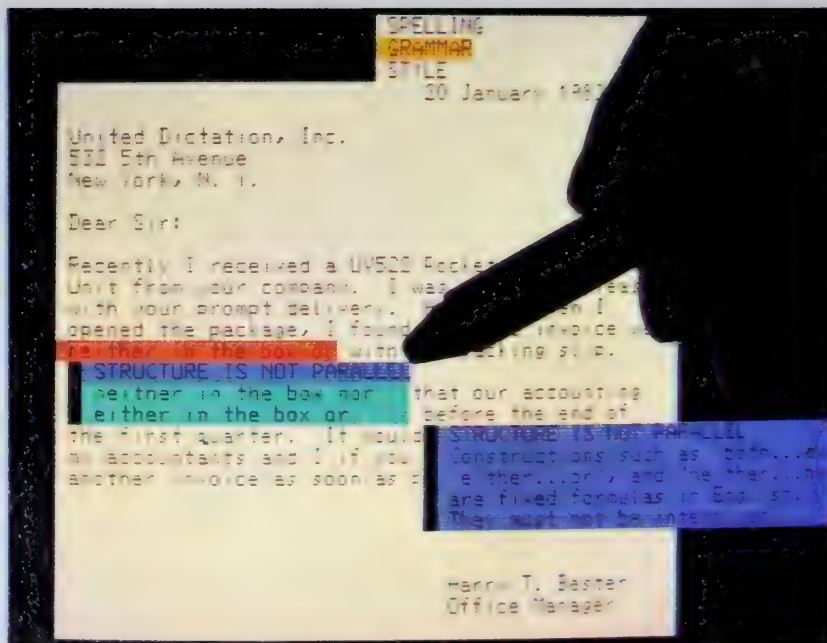
rameters of a good English sentence might be—the desired number of words between a subject and a verb, for instance, or whether the verb should be to the left of noun clauses or to the right."

In other words, good writing turns out to be whatever a human operator tells EPISTLE it is. The rules, moreover, must be clear and concise to be incorporated into the program—difficult with anything as flexible and subtle as the English language. Which, of course, is a limitation on EPISTLE's ability to turn bad writing into good writing. Still, Miller feels that it can at least turn terrible writing into mediocre writing by catching stylistic gaffes.

For now, EPISTLE must work on a sentence-by-sentence basis only; whether a paragraph is coherent, logical or consistent with the rest of the text is beyond its current design. But Miller says, "We are deep into the design of even this function," and he sees no reason it can't be done. Ulti-

English 101 from a computer

Highlighted in red is a grammatical error. Two possible corrections are offered (aqua box), along with an explanation of the rule broken (blue box). With a light pen the writer then selects the desired correct phrase. Lapses in grammar, spelling and style can be dealt with in a similar fashion. But EPISTLE still can't turn bad writing into good.



Source: International Business Machines

mately, too, EPISTLE may be able to deliver instant synopses of the content, highlight key words and generate indexes automatically.

As for the implications of all this, Miller, like any research scientist, is cagey. "It would be great for rewriting instruction manuals," he says, "but for writing fiction, forget it." He also stresses that EPISTLE can't learn to improve its skills, as humans can. "It's really like going around and squeezing all the old fuzzy-lipped high school English grammar teachers into a computer," he says. And he thinks scholars may be able to use the system to help research such questions as whether Bacon really wrote Shakespeare's plays or whether the Hitler diaries were genuine. By coding a copy of *Mein Kampf* into the computer, Miller says, EPISTLE could "probably have detected from the grammar that the diaries were fake."

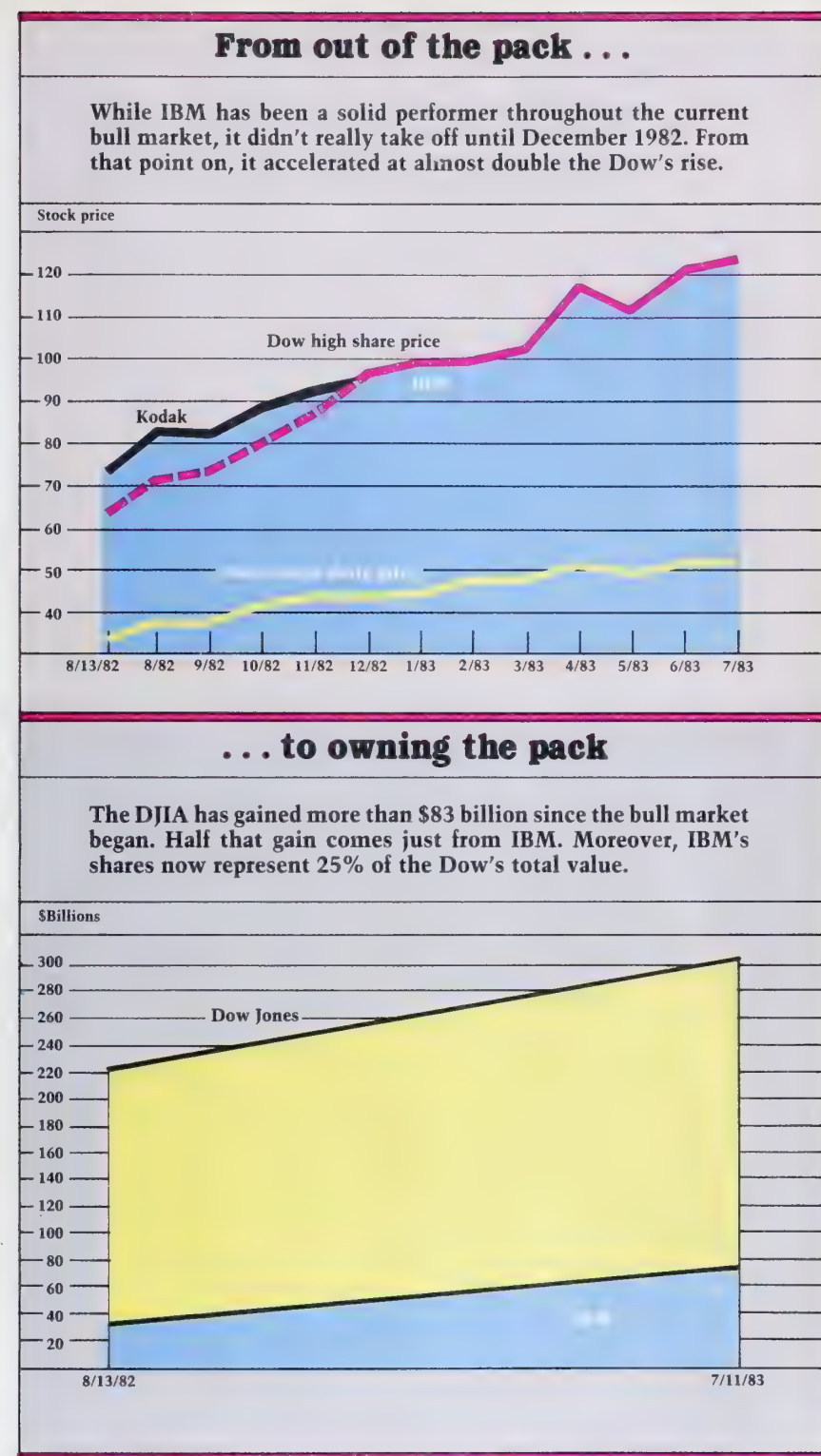
But for Miller the ultimate goal is to create better writers. To teach, in short. "In a way, the system is intended to be self-destructing," he says. "The writing level [of the general population] will be higher after people use this system over time."

But maybe Miller is optimistic. If people can use programs like this as a crutch, a lot of them may figure: Why bother to learn when the computer program will cover my flank?

What's good for Big Blue

The Dow Jones industrial average has risen some 60.4% since Aug. 13, 1982, the date most commonly accepted as the beginning of the current bull market. During this period, however, the rise of the three hottest stocks in the Dow average—American Express, Sears, Roebuck, and IBM—has been far greater: 145.37%, 119.5% and 96%, respectively. But of the three, no stock beats IBM in its total effect on the market. With 602 million shares outstanding, IBM's total market value has risen \$36 billion, compared with \$5.3 billion for American Express and \$7.8 billion for Sears. Moreover, no stock in the DJIA beats IBM as a performer. Starting from well behind Eastman Kodak in August, IBM raced ahead better than five points a month. It became the highest-valued stock on the Dow in December and has not been topped since. Its current market value, \$74.25 billion, accounts for 24.4% of the total market value of all Dow stocks.

Back in the 1950s Secretary of Defense Charles Wilson said, "What's good for the country is good for General Motors, and vice versa." He was pilloried for that, but all he meant was



that GM's economic health was the nation's leading economic indicator—which was true at the time. Now you could say the same thing about IBM, only IBM management is too public relations-wise to put its foot in that one. But the fact is that IBM's dominance of the DJIA symbolizes the new American economy, dominated as it is by information processing rather than by heavy industry.

The real Godfather

The same trend is reflected in IBM's 13(f)—the investment list for its pension plan that it must file yearly with the SEC. In IBM's investment portfolio there is not a single steel company, only one automobile manufacturer (Chrysler Corp.) and a handful of chemical companies, of which Diamond Shamrock and Hercules are the

At mach 2 closing speeds, four extra seconds can be an eternity.

When an F-16 fighter pilot is in a dogfight, every second is critical. Westinghouse fire control radar—with its ability to lock-in the enemy first—can give the pilot a four-second advantage and more.

In the early 1970s, Westinghouse scientists and engineers anticipated future requirements for more advanced, yet more reliable, radar. They took a modular approach to create smaller, lighter, and less expensive radar. These advantages, plus the radar's outstanding performance, reliability, and maintainability, have helped make the F-16 the world's best multi-mission fighter.

This same approach to quality and innovation will soon protect pilots further as we begin delivery this year of the next generation of electronic countermeasures (ECM).

For the future, Westinghouse modular technology will result in many applications of very high-speed, integrated circuits (VHSIC). These circuits, with the potential to increase processor capability by more than 1,000 percent, will dramatically increase military capabilities, and may ultimately revolutionize industry.

In everything we do, Westinghouse is more than 100,000 people around the world dedicated to quality and excellence.

You can be sure... if it's Westinghouse





Technology

only ones of any size.

Also conspicuous by their absence are virtually all other sectors of the smokestack economy—there are only two rubber companies and two lumber products companies—and, surprisingly, most of the traditional segments of the service economy. There are no banks on IBM's investment list, few insurance companies.

How do IBM's pension managers view the future? They hold high-technology companies by the score, cable television companies and other entertainment-oriented firms, and fast food. IBM's bets are on pizza in particular, with investments in Godfathers Pizza, Inc. and one of its major franchisers, Pizza Ventures, Inc. What money it hasn't put into pizza parlors is going into Mexican food, at Chi Chis, Inc., and seafood, at Jerico, Inc., which operates and franchises over 1,000 Long John Silver seafood restaurants. Retailing is represented by K mart, Gap Stores, Pic 'N' Save Corp., Stop & Shop Cos. and Family Dollar Stores—specialty or discount retailers—with Dayton-Hudson in isolation as an upscale marketer.

Are there any real surprises on the list? Only one major surprise. It is that a good deal of IBM pension money is invested in the heavily out-of-favor oil industry, both in producers and in oil exploration companies. How come? Apparently IBM's managers feel that oil stocks are undervalued and that the famous glut isn't going to last forever.

Except for the oil holdings, most of IBM's stocks have been good bets lately. While technology stocks have had an off-again, on-again record, the fast food and entertainment companies that IBM has invested in are all near or close to their alltime highs, as are the numerous health care companies on IBM's pension list.

It's an interesting view of the world that IBM has. While sitting by your cable TV, video game or computer hookup, munching on pizza, sipping a Bud or a Blatz, you will gaze upon your home furnishings, which have been purchased at K mart or Levitz Furniture with a consumer loan from Avco or Beneficial Finance, dressed in jeans bought from The Gap, and you'll spend much of your free time at the movies. You guessed it: the postindustrial society.—S.K.

Solar lives!

Solar cells are 3-inch silicon discs that make electricity from sunlight. Since February 108 16-foot-long arrays of these cells have been tracking the desert sun over 20 acres of Hesperia, Calif., quietly manufacturing a megawatt of electricity. Built in nine months by Atlantic Richfield's Arco Solar subsidiary, the facility now sells enough power to Southern California Edison to service 400 homes and is the largest such plant in

ic station at Rancho Seco, Calif. and plans another 99 megawatts over the next ten years. Foster City, Calif.-based United Energy Corp. has sold a megawatt of photovoltaic generators to third-party investors in Davis, Calif. and is also building a station with over 5 megawatts of power at Borrego Springs, Calif.

Worldwide, the photovoltaics industry has nearly tripled in size since 1980, to about \$100 million last year,



Arco Solar's photovoltaic plant in Hesperia, Calif.

Electricity for 400 homes.

the world.

This may be only the beginning. Arco Solar is already at work on a 16-megawatt facility for Pacific Gas & Electric in San Luis Obispo County, Calif. The Sacramento Municipal Utility District has broken ground for a \$12 million 1-megawatt photovolta-

and the 9.2 megawatts of solar cells produced worldwide in 1982 was double 1981's production. And here's good news: The U.S. has 60% of the world market. Nearly 40 companies, 17 of them in the U.S., sell solar cells worldwide.

It is good news, too, that the oil glut

"We do not skimp on lifestyle"

For all its promise, the solar cell business is still penny ante stuff. Take Santa Barbara's Solar West Electric. Solar West has quadrupled sales every year since Rob Robinson, 32, a former marketing man for a sporting goods company, founded it in 1980. But its revenues last year were a paltry \$1 million, mostly for vacation homes, ranches and cabins in remote areas. Robinson's own home runs on a 2.5-kilowatt photovoltaic system that powers 20 lights, power tools, a washer, toaster, television, stereo and vacuum cleaner. (He cooks and refrigerates with propane gas.) Because of the 40% personal federal energy tax credit and a 15% California credit, the net cost was only \$4,500. It would have cost that much just to run a utility line from the road 600 feet away, not to men-

tion monthly utility bills, he says.

Steven Strong, founder and president of Solar Design Associates in Lincoln, Mass., designs homes with solar electric and heating that can cost up to \$200,000 (the solar system itself may cost anywhere from \$5,000 to \$50,000). Strong says many of his customers, in well-heeled communities, are motivated as much by the desire for independence as by economics. In short, it's a be-first-on-your-block kind of gadget. Strong insists that 20% of all American homes could have some photovoltaic power by 1990, and that it could provide 5% of America's total electric needs by the year 2000.

That is almost certainly too optimistic, but even conservative analysts say that photovoltaics look better now than a year or two ago.—A.A.L.

How a solar cell is made

There are several types of solar cells, but they all work on the same principle: Semiconductor-grade silicon, formed into wafers, absorbs light, producing electrically charged particles and emitting a current that is collected through attached wires.

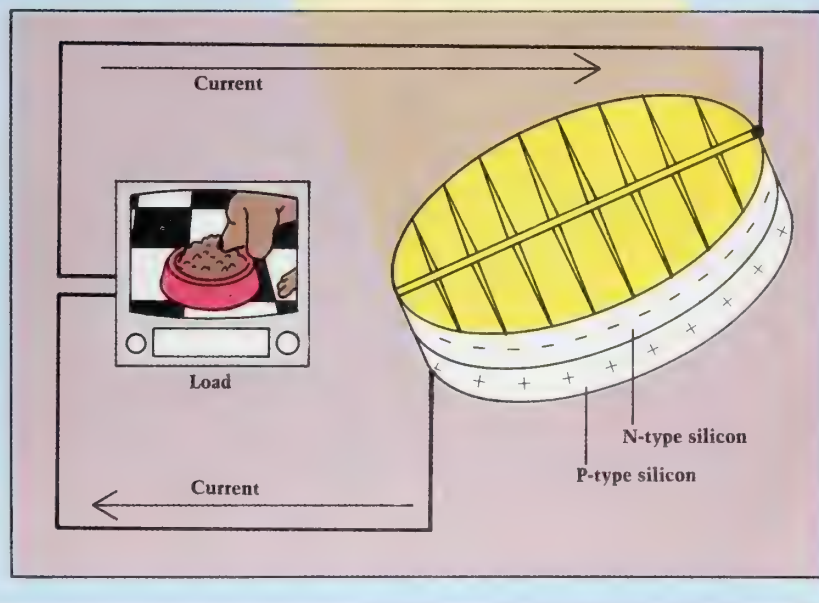
The most common production method is the Czochralski process, in which a large silicon crystal is "grown" from a molten liquid in a furnace and then sliced into wafers. Raw polysilicon is melted to 2,200 degrees F, and a speck of silicon crystal is implanted. As the material is heated and turned, a sausage-like crystal emerges, up to 36 inches long and 150 pounds in weight. The wafers are sliced off by diamond blades and then processed into solar cells.

The Czochralski cells have over a 60% share of the market. The efficiency of panels of cells—the percentage of surface sunlight they turn into electricity—has reached a respectable 11%, even in mass production. But a prime disadvantage is the \$45-per-kilogram cost of the raw material.

Semiconducting cells make up

about another 20% of the market. These are made chiefly by Solarex, a Rockville, Md. company that uses a "dirtier," less expensive polysilicon raw material. Instead of "growing" crystals, Solarex casts the silicon into square ingots. The square wafers that are cut from the ingot have a better packing density and area efficiency on panels than their round Czochralski cousins. The semicrystalline cells get about a 10% to 12% efficiency when mass produced, but Solarex has produced cells in the lab that get about 18%. The company thinks it can reduce its cost to perhaps \$5 per kilogram by the end of the decade by making its own silicon feedstock from quartz and sand.

Amorphous silicon solar cells have about 15% of the world market, but are only 5% to 6% efficient and are made primarily by the Japanese for consumer products like watches, calculators and battery chargers. American labs are working to improve this technology, too. Ribbon cells, made by Mobil Solar, resemble 2-inch steel ribbons and as yet account for less than 1% of the market.—A.A.L.



amorphous silicon method. Those solar cells sold for between \$25 and \$30 a watt, he says, and went into watches, calculators, battery chargers and a few solar panels, for \$20 million in manufacturer-level sales. But Japan's fledgling industry, led by Sharp, Sanyo and Fuji, is already making a profit, while the U.S. industry overall is not. And Maycock thinks the Japanese will gain a 35% share of the

world photovoltaics market by 1990.

Not surprisingly, the U.S. industry uses those projections as an argument for continuing the tax breaks. But Uncle Sam and the states may grow tired of extending those liberal credits. The federal credits are due to expire in 1985, and state credits are under siege in California and Massachusetts. A sure case of penny wise, pound foolish.—Alyssa A. Lappen

hasn't squelched this infant industry even though the price for solar generating plants is extraordinary and the power they supply is but a drop in the ocean. "It costs \$1 to \$2 a watt right now for coal or nuclear, and photovoltaics is about \$10 a watt," says Paul Maycock, a top photovoltaics consultant in Alexandria, Va. What's keeping solar energy alive? The fact that it lends itself to small-scale generating plants, for one thing. "The electric utility industry must move away from the tradition of large, capital-intensive, baseload plants," says William Gould, chairman of Southern California Edison. Why so? Because demand for electricity is growing at historic lows and so expansion in small increments has become desirable.

That probably will not mean an increase in the rooftop solar systems first envisaged by the "small is beautiful" crowd, except in remote locations. Rather, says Andrew Krantz, head of the Department of Energy's photovoltaic systems research branch, it means the construction of solar generating plants as a supplement to larger, conventional power plants. "Our calculations show that you begin to arrive at economies of scale in solar power at about 20 megawatts a year of production," he says. At that level, the price of solar panels would fall to \$3 or \$3.50 a watt. That's a long way from the current \$10 figure, but Krantz believes Arco should reach the 20-megawatt point in early 1985.

Spurring the solar market onward are generous tax breaks. "The great thing is that tax credits are stimulating large central facilities ten years before they are going to be economic," says Maycock. The federal government gives businesses a 15% tax credit for photovoltaic investment, in addition to the usual 10% investment tax credit, and there are state solar tax credits.

Such tax credits have encouraged photovoltaic tax shelters. United Energy's projects, sold last year, were among the first. Solarex, the number two solar cell manufacturer, with perhaps \$20 million in sales, is negotiating to set up third-party-financed photovoltaic facilities for several major utilities. Arco Solar also plans to use third-party funds for part of its Pacific Gas & Electric facility.

As in other areas technological, Japan is potentially a big player. The Japanese photovoltaics industry is still small. Maycock says it produced only 700 kilowatts of cells last year, mostly through the rather inefficient

Why you were wise not to bite.

When Banks and S&Ls started dangling those high interest rates, did you stay with your Money Market Mutual Fund?

Wise decision.

Because it's amazing how those once-fat Bank/S&L rates have withered. Today, their overall rate hardly differs from that of the Funds. And in many cases, that difference is in favor of the Funds.

But just as important: have you been watching the market? Lately, in the very face of recovery, there's a new volatility...on the credit scene, in the money supply, in interest rates. That could mean sharp changes in the rates your money earns. What you need now, more than ever, is what you get only in your Money Market Mutual Fund:

Specialized, single-minded money market management.

Your Fund managers have just one aim: to take maximum advantage of changing interest rates with minimal risk. Under their guidance your money is pooled with that of other investors to give each dollar muscle it couldn't exercise alone. They invest that pool only in the money market, in high-quality short-term securities. And they watch it hour by hour, day in and day out, adjusting the Fund's portfolio as market conditions indicate.

In short, your Money Market Fund does what no Bank or S&L does: con-

centrates on nothing but your investment in the money market.

Your decision was wise for other reasons as well. In a Bank Money Market Account, you're penalized if you fall below the required minimum, or if you write more than three checks a month.

In some cases you can even lose that month's interest if you withdraw your money entirely. On the other hand, your Money Market Fund lets you write any number of checks, though minimum requirements vary. There are never any penalties. And you always get the full money market rate, even if your investment drops temporarily below the specified minimum.

What's more, in a Fund you're more than a customer. You're a shareholder, a part

owner of the Fund itself. That gives you some very real advantages. You and the other shareholders receive all of the income earned by your Fund, less modest operating expenses. Your Money Market Fund must pay the same rate to everyone, and the U.S. Securities and Exchange Commission has stiff regulations to make sure it does. And though Money Market Funds are not insured, their record of safety is extraordinary. In existence for more than a decade, the Funds now total close to \$170 billion with over 9.5 million shareholders.

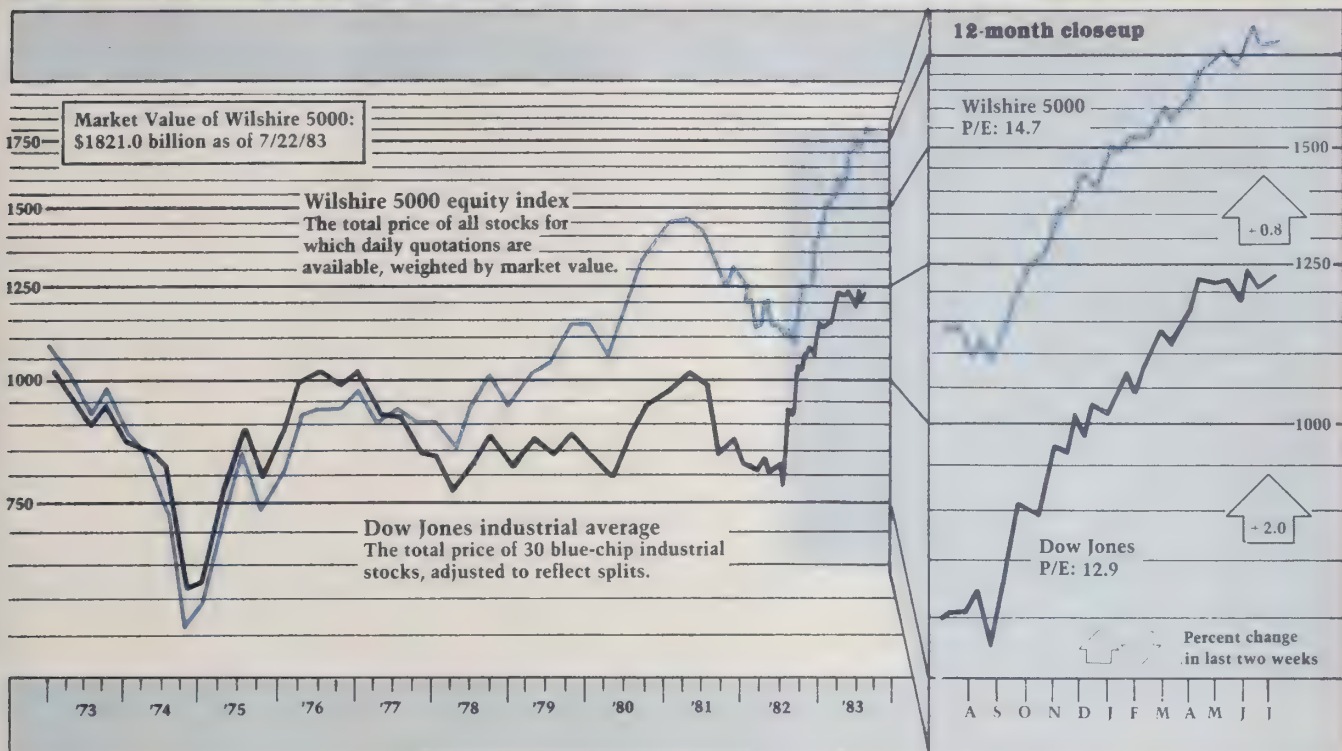
Had you switched to a Bank, you would have lost your status as a shareholder. You would simply have become a customer with an account. The Bank could and would use your money as it saw fit, even making loans and investments that have nothing to do with the money market. So you'd have no guarantee that the interest you received would be a true money market rate. Nor even that you'd receive all the interest your money generated... no Bank is required to pay you all it earns on your money. In contrast, as a Money Market Fund shareholder, you know you're getting true, full money market rates.

All in all, you were wise to stay put. Because for us in the Funds, the money market is not a sideline.

It's where we invest your money full time, with specialized professional attention, every market day.

AMERICA'S
MONEY MARKET MUTUAL FUNDS
The full-time professionals in the Money Market

The Forbes/Wilshire 5000 Review



Spinning wheels. Investors are clearly worried about rising interest rates, but after a turbulent four weeks most stocks were only slightly behind their earlier highs. The overall market, as measured by the Wilshire index of roughly 5,000 securities, lost 1.2% over the last month—even though it managed to squeeze out a 0.8% gain in the most recent two weeks. During this volatile period investors sought refuge in higher-quality issues. The Dow was the strongest of the major indicators, with a 2% advance. The NYSE, meanwhile, was slightly stronger than the other exchanges. However, over the four weeks only

Amex issues, propped up by gains in the energy sector, were able to post gains.

The yardstick measurements below show that during the last four weeks stock buyers were generally more conservative than they have been of late. High-volatility and high-P/E issues underperformed the market by close to a 2-to-1 margin, while low-volatility and high-yield issues bucked the trend and registered slight gains. The emphasis, however, wasn't totally on safety. High-growth stocks and stocks of small firms also showed minor advances.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ¹	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-1.2	-1.1	-0.8	-1.1	0.5	-2.5
in last 52 weeks	57.9	50.6	48.2	53.2	92.8	86.3

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	-1.4	1.3	-2.4	1.0	-2.1	-0.2	1.1	-1.7	1.0	0.4	-1.3	0.0
in last 52 weeks	60.6	168.2	156.7	61.4	118.8	155.1	54.3	155.5	175.6	62.0	76.0	158.9

¹Based on sales.

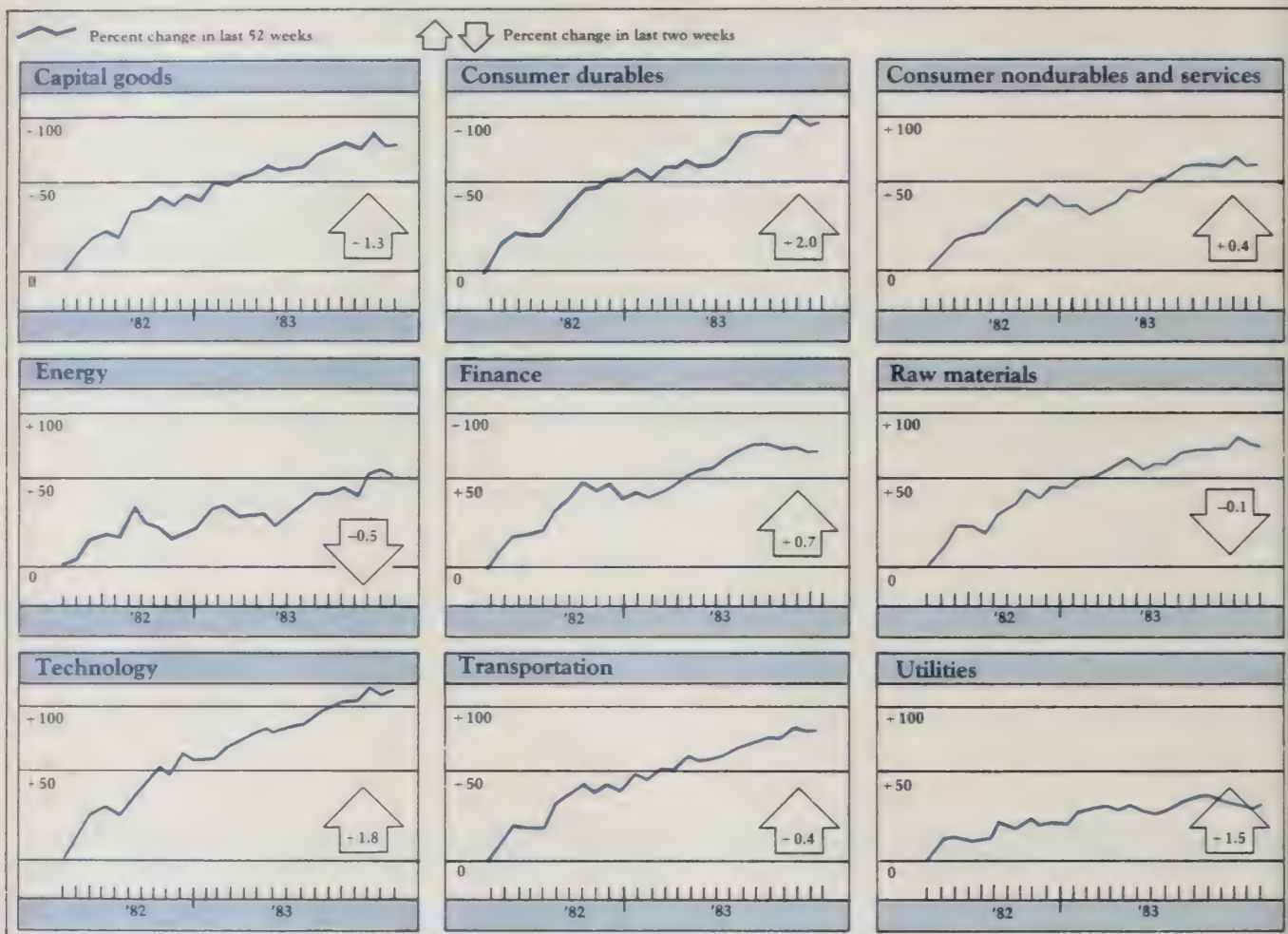
²A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

³A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 7/22/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Nuts and bolts. Four sectors outperformed the market during the last two weeks. The strongest group was consumer durables, with a 2% gain. Despite some jitters over stocks such as General Instrument, the technology sector was ahead by 1.8%. Meanwhile, rising interest rates returned some of the luster to utility issues, which advanced

1.5%. The final group to outperform the market was capital goods. These stocks were propelled by the stronger-than-expected pickup in the economy. For the four-week period, however, only the utilities and energy stocks are ahead—both with 1% gains. Over two weeks, however, energy stocks suffered the biggest losses, off 0.5%.

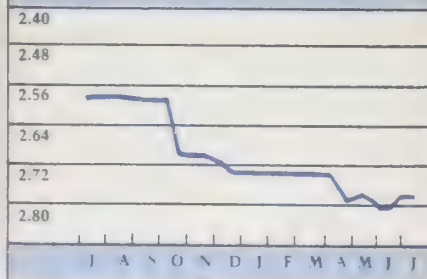


What The Analysts Think

Live wires? Utilities, with their high yields, are still the analysts' favorites. Although these issues show the weakest sector performance for the last 52 weeks (up 23%, vs.

93% for technology), the professionals may yet be vindicated. Over the past four weeks, utilities were one of the best performing groups.

The experts' consensus



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	2.51	1	1
2	Transportation	2.69	2	4
3	Raw materials	2.72	3	6
4	Energy	2.76	4	2
5	Capital goods	2.79	5	5
6	Finance	2.81	6	3
7	Consumer nondurables	2.82	7	7
8	Technology	2.88	8	8
9	Consumer durables	2.97	9	9

rating of 1 200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 7/22/83. Prepared by Wilshire Associates, Santa Monica, Calif

**You can't buy belief
but you can advertise in it.**

Good Housekeeping
The magazine women believe in.



The wrong goat?

According to Biblical commentary, at Yom Kippur the ancient Hebrews symbolically loaded the sins of the people on the head of a goat and drove it into the wilderness. Hence our term "scapegoat," a familiar figure in the corporate world, the butt (no pun) of his boss' mistakes. At Warner Communications, Steven Ross, the company's high-living \$3.7 million-a-year chairman, made Atari CEO Raymond Kassar the goat, loaded Atari's sins on him and sent Kassar into the wilderness. But more than a scapegoat may be needed if Wall Street is to forgive Warner for the sins of misguided optimism that produced huge losses, knocking Warner stock from almost 60 to around 20 during a roaring bull market. "Steve Ross took all the dough and the glory when Warner was riding high," a longtime observer of the company complained. "The buck stops at his desk. At Manny Gerard's, too [Warner co-chief operating officer]. He was supposed to look over Kassar's shoulder. Ross and Gerard must go. It's risk and reward, baby. This is the big leagues."—Thomas Jaffe

Too soon, too soon

When an arbitrager makes money on a takeover deal, he frequently makes it at the expense of long-suffering stockholders who lack the knowledge or the feel the arbitrager has. Consider the recent case of the Quaker Oats takeover of Stokely-Van Camp. There must have been at least some longtime Stokely shareholders who sold out at the \$55-a-share level after management offered a leveraged buyout at that price and Dillon, Read opined that \$55 was a fair value. The rest is history. Pillsbury and Quaker Oats entered the bidding and Quaker won the day with an offer of \$77. It apparently never occurred to those who took \$55 and ran that once a FOR SALE sign goes up better offers can still be forthcoming. All they knew was that \$55 was double what the shares had sold for a year earlier and that the respected house of Dillon, Read had endorsed the price. And what does the firm, which got \$300,000 for its evaluation, have to say to those who sold out too soon? Managing Director Richard Yancey: "We decided \$55 a share was a very fair price. The introduction of bidders may have changed the circumstances, but the underlying fundamentals remained the same."

Yancey is right, of course: Most experts agree that Quaker Oats paid an outrageous price for Stokely. Still, that's scant comfort to shareholders who sold too soon.—T.J.

Buy on disappointing news

Phibro-Salomon slumped nearly 10%, down 27 $\frac{1}{2}$ % to 31%, on huge volume—4.1 million shares in one week last month. The news that produced the slump wasn't bad; it was merely disappointing. Instead of being up 100% or more from the same period in 1982, its second-quarter earnings were up "only" 82%. Since the investment and commodities trading firm has 139 million shares outstanding, that came to a \$400 million loss in market value. Which to a lot of smart people spelled a chance to get into a very promising stock at a nice discount. They figure the disappointment stemmed from a one-shot situation. Earlier in the year the firm made heavy commitments to buy oil. The strategy was to sacrifice margins in order to gain market share in a business where more and more of the world's oil moves through middlemen like Phibro. In addition, oil was weaker than Phibro's traders expected, and the cost of carrying it higher. As a result of this setback, analysts who follow the stock like William Siedenburg of Smith Barney have trimmed their 1983 earnings projections slightly—but only slightly. Siedenburg is now looking for \$3.65 a share in 1983, a gain of 45%; and a 25% gain to \$4.50 next year. At only 7 times projected 1984 earnings and down 25% from its 1983 high, Phibro would seem to have more than discounted its short-term petroleum trading problems. Especially since it is nicely positioned to profit if the price of oil turns volatile, as many experts think it will.—T.J.

Floor but no ceiling

Copper and oil? What could be slower in these deflationary times? We mean who wants a stock like Freeport-McMoRan, the 1981 combination of Freeport Minerals and McMoRan Oil & Gas? Yet its share price has almost doubled—to 22 $\frac{3}{4}$ —since last August, and at least one smart analyst, Clarence Morrison of Dean Witter Reynolds, thinks the company is a buy. Here's one reason: FM's Indonesian copper mine has operating costs of perhaps 60 cents per pound (including

by-product credits), among the lowest in the world. Even though copper now sells for little more than 80 cents, Freeport still turns a tidy profit.

But the big potential comes from gold. FM is majority partner in the largest U.S. gold mine, at Jerritt Canyon, Nev. It will produce 245,000 ounces in 1983. FM's 1982 share was 171,500, more than half of which was sold forward last year at an average price of just under \$400, a level highly profitable for this mine. Not a bad hedge, since gold now is trading at only \$422.

However, if inflation should take off again and gold go through the roof, FM could sell part of its 1983 gold and all of its 1984 gold at a much higher price. Assuming some forward-selling both this year and next, Morrison thinks 1983 earnings could reach \$1.75 a share, and a record \$3.25 in 1984. In short, there is a floor under FM's earnings but virtually no ceiling. At 7 times probable 1984 earnings you are getting a very nice inflation hedge feature for nothing.—T.J.

Look below

Talk about woes. Crystal Oil (revenues, about \$200 million) is groaning under \$282 million in long-term debt, about 3.5 times shareholders' equity. To ease the burden, Crystal last year had to sell its gas-processing business and shut down and offer for sale two of its three oil refineries. It was in the red 14 cents a share in 1982, and 1983 earnings won't be much better. So how come Crystal's 20.9 million Amex-listed shares have nearly doubled since March, recently rising to around 21 on heavy volume? It's an asset play chiefly. Crystal is sitting on lots of unexplored acreage that it lacks the money to develop. It is currently negotiating to sell a 25% interest in its producing properties, plus a call on the entire output of a field yet to be developed. Part of the money would be earmarked for debt reduction, the rest to exploit reserves. Thus slimmed down and concentrating on gas production, Crystal would be a nice takeover target for some big energy company. So says Alan Gaines of New York's Gaines Management Co. The attraction, he says, is that if debt can be lowered and production increased, Crystal has the potential to double its \$21.60 a share in net tangible assets by 1986. He also figures that new reserves coming on to replace old natural gas production could boost cash flow to over \$6 a share, vs. the current \$3.45.—T.J.

If you think stock prospectuses are boring, then don't go near the new-issues market.

Hidden rocks

By Jill Andresky

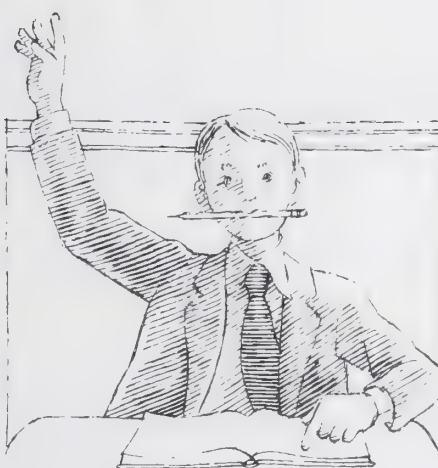
SOME 2,500 STOCK OFFERINGS flooded the SEC's offices during the first five months of 1983. That's 30% more than in the same period last year. What's more, an alarming number of these new issues were kooky, high-risk propositions that, on serious analysis, seem wildly overpriced.

There were lots of eager buyers, of course, and that highlights a dangerous inclination on the part of investors to ignore the fine print in stock prospectuses. No wonder. "The format of a prospectus makes it very difficult for a layman to read," says Philip J. Hoblin Jr., general counsel for Shearson/American Express. "It's a technical disclosure document, not a practical disclosure document."

Cold comfort for an investor left to plow through 30 or 40 pages of cryptic corporate statements and incomprehensible numbers. But that's not the way experts read financial disclosure documents, and individuals can minimize their own risks by taking a few tips from the pros.

In general, search for the fine print. "Footnotes to financial statements are your best sources of warning signs," says Jane Majeski, an associate in Shearson/American Express' corporate finance group. Beyond that, here are seven red flags to watch for when you are evaluating a prospectus:

1) *Earnings growth.* "Make sure the company isn't going to market on the basis of a one-time surge in earnings, as opposed to a more consistent earnings growth," says Paul Roth, a partner at New York law firm Schulte Roth & Zabel. The preliminary pro-



spectus for the brokerage firm Rooney, Pace Group, for example, lures investors with per-share earnings of 93 cents over the most recently reported eight months. That's nearly three times the firm's previous annual record and quite a bit higher than 1982's 21-cent loss. But look closely at management's discussion and analysis. Approximately 36% of revenues "resulted from several principal trades. . . . There can be no assurance that trades of such magnitude will recur in the future."

2) *Dilution.* Pay attention to how many shares of stock will be outstanding after the offering. As Ernst & Whinney partner Laurence Charney explains: "Say you buy a stock for \$1 a share and there are 50 million shares outstanding. It's going to take a long time before all those outstanding shares move, and you had better be sure the company is strong enough to compensate for that dilutive effect."

3) *Related party transactions.* If insiders are selling a good bit of stock in the offering, this could be a tip-off that the company is coming to market at a price too high to sustain. If the stock is really such a good deal, then

why should the insiders get rid of it?

4) *Accounting methods.* "It's the old question of liberal versus conservative policies," says Harvey Moskowitz, Seidman & Seidman's national director of accounting and auditing. "There are a few things to look at: Are they using LIFO for inventories, which is usually more conservative than FIFO? Are they using accelerated depreciation, which is more conservative than straight-line?" Income recognition policies can also be conservative or liberal. Naturally, there's no saying that the more conservative method is always better. But a company that consistently employs liberal accounting methods deserves close scrutiny.

5) *Use of proceeds.* Make sure your investment is being used to spawn future growth—through investing in plants, equipment or research—rather than to pay off old bank debts or accrued salaries. The manufacturer Novo Corp., for example, intends to use just \$880,000 of the \$3.8 million it expects to receive from its stock sale for working capital. The rest will go to retire debt.

6) *Pro forma adjustments.* You will see these when a partnership incorporates and then goes public or when one firm acquires another before coming to market. "It's important to realize," says Moskowitz, "that pro forma information is more important than historical figures, since adjustments are nearer to the way the company will operate in the future." The brokerage firm McDonald & Co. was previously a partnership, and pro forma adjustments cut net income in half, from nearly \$12 million to \$6 million.

7) *Management.* Make sure the people running the company have relevant experience and will devote significant time to the business. Doesn't every management do that? Look at Family Showtime Theatres, a restaurant and entertainment center company that has yet to generate any revenues. Its preliminary prospectus states that the company is "wholly dependent upon the personal efforts and abilities of its officers, only one of whom will be devoting full time to the company's proposed day-to-day business activities."

A final point to remember: The fact that the SEC approves a prospectus is not an endorsement. All the government is concerned with is full disclosure of material information. When it comes to evaluating value of an investment, you are on your own. ■

When a company has no earnings and very little in the way of product, it's tough to put a price on its stock.

What's your Ph.D. ratio?

By Paul Bornstein

WHEN CETUS, one of the nation's largest genetic engineering firms, went public in March 1981, it raised \$119 million. At the time, that was the biggest initial public offering ever—and the California-based research firm didn't even make a marketable product. "The

only way to value the company was by the number of Ph.D.s it employed," says Steven Reed of Bateman Eichler, Hill Richards.

Welcome to the wonderful world of biotechnology companies. Welcome to an investment fairyland where hopes and dreams count for more than reality.

In the accompanying table, we ex-

amine 20 of these hot new biotechnology stars. But it isn't a typical financial analysis. How could it be? Conventional statistics such as revenue, book value, earnings and price/earnings ratios are meaningless. What is a dream worth? What's the right P/E for fantasy?

Genetic engineering and monoclonal antibodies are the two major segments of this new technology. Understanding a little bit about each helps you appreciate why these companies are a concept that excites many brokers. Through genetic engineering it is possible to move the hereditary material of cells—called DNA—from one organism to another. When the new cell replicates, it retains the characteristics of the original cell.

But never mind the details. All that investors and speculators care about is the resulting potential for thousands of exciting products. Down the biotech pipeline, so the optimists say, there may well be everything from more nutritious corn and seedless watermelons to an improved vaccine for hepatitis.

One of the most exciting genetic

A shopping list full of cells

These 20 biotechnology firms let investors play venture capitalist. Their assets amount to little more than R&D potential, and stock prices are based on the promise of new products. Dean Witter's Karl-Holderreed Biotech-

nology Stock Index has gone up 154% since last August. As the final two columns indicate, investors typically contribute a far larger portion of capital than they receive in equity. Needless to say, risks abound.

Company/primary focus	Market value (millions)	—Offering— price (date)	52-week price range†	Recent price	Cash and cash equiv per share	% capital contributed by public	% equity owned by public
Amgen/genetic engineering	\$140	18 (6/83)	18 — 12½	13¾	\$4.27	68.6%	22.5%
Applied Biosystems/instrumentation	73	17 (6/83)	19 — 14	15¾	3.72	73.4	28.0
Bio-Response/monoclonal antibodies	110	2½ (10/79)*	16½ — 3½	14	1.66	44.4	25.7
Biogen NV/genetic engineering	292	23 (3/83)	24¼ — 14¾	15¾	2.93	44.0	13.5
Biotech Res Labs/monoclonal antibodies	80	3½ (3/81)	21½ — 2¾	15½	0.50	23.0	30.0
Centocor/monoclonal antibodies	122	14 (12/82)	25½ — 13½	17½	1.70	75.0	23.7
Cetus/genetic engineering	380	23 (3/81)	19 — 7¾	17¼	3.98	82.6	22.8
Collaborative Res/genetic engineering	128	11 (2/82)	15½ — 7½	13	2.82	70.0	16.0
Damon Biotech/monoclonal antibodies	307	17 (6/83)	17½ — 14¼	16	2.13	99.6	12.5
Enzo Biochem/genetic engineering	261	1 (6/80)	33¼ — 5¼	30	2.64	62.0	38.0
Genentech/genetic engineering	655	23¾ (10/80)	49¾ — 18	46¾	2.66	74.5	13.4
Genetic Engineering/genetic engineering	18	5 (1/81)*	10¾ — 2¼	8¾	0.47	40.0	60.0
Genetic Systems/monoclonal antibodies	224	2 (6/81)*	17¾ — 2¾	14	0.84	78.0	22.0
Genex/genetic engineering	250	9½ (9/82)	20½ — 7	19¼	2.97	66.0	20.8
Hybritech/monoclonal antibodies	273	11 (10/81)	31 — 10¾	27¼	3.94	49.0	13.0
Molecular Genetics/genetic engineering	115	9 (6/82)	23 — 5	18¾	0.43	43.3	9.1
Monoclonal Antibodies/mono antibod	45	10 (8/81)	28½ — 8	18¾	0.68	82.3	23.5
Ribi ImmunoChem Res/biomed	39	2 (5/81)	16½ — 2¼	13	0.99	95.8	32.9
Vega Biotechnologies/instrumentation	20	6 (6/83)	11¾ — 6	8	2.59	46.0	41.0
Viratek/genetic engineering	47	7 (5/81)	20¾ — 5¾	15	0.05	84.4	20.0

*Offered as a unit. †Or most recent price range

Sources: Standard & Poor's; companies' prospectuses

The magazine you are reading is protected by the First Amendment. Radio and television are not!

The First Amendment guarantees the rights of free speech and freedom of the press which magazines and newspapers enjoy. But these constitutional rights are effectively denied to radio and television by federal regulations that govern the content of news broadcasts.

The "Fairness Doctrine," which embodies several regulations, is a good case in point. It looks good in theory since it proposes "equal opportunity" for and "reasonable access" to opposing viewpoints.

In practice, it doesn't work. Stations often choose to remain silent on many important issues for fear of opening a Pandora's box of competing claims for air-time. The result is that viewpoints which could contribute to public knowledge and debate go unheard.

According to a recent Roper Poll, 82% of Americans now get their news primarily from the broadcast media. For this majority, the press is radio and TV. But these media are not protected by the First Amendment. Could this have been the

intent of our founding fathers? We don't think so.

When the primary news source for a majority of citizens is denied its First Amendment rights, it's time we all become alarmed. At the Mutual Broadcasting System, we think it's time to give radio and television the same First Amendment protections that newspapers and magazines have enjoyed since 1791. Congress should repeal the so-called "Fairness Doctrine" in the name of fairness.

Mutual Broadcasting System 

Statistical Spotlight

engineering applications involves monoclonal antibodies. This exotic field is a specialty of seven of the companies in our table. Antibodies are proteins used to neutralize foreign substances in the body. Monoclonal antibodies can be grown from a single cell source to attack a specific substance, with profound medical applications. Scientists can harness the body's own defense mechanism to prevent disease.

But when? And how much? And who? Those are some embarrassing questions.

Right now, only a few biotechnology companies have federal approval to market anything. Genentech launched its human insulin in 1982. Soon after, Cetus and Molecular Genetics introduced products to prevent diseases that attack newborn pigs and calves. Using related biotechnologies, Ribic ImmunoChem has a product to treat cancer in cattle and horses. There is a limited market for all this, however. What genetic engineering companies are really after is the treatment of cancer and heart disease in humans.

The situation among monoclonal antibody firms is much the same. Centocor, Hybritech, Genetic Systems and Monoclonal Antibodies now sell diagnostic test kits for pregnancy, venereal disease or certain types of cancer. Enzo Biochem will soon seek FDA approval for similar methods of detecting herpes and hepatitis. The hope is that these fledgling products will generate enough revenue to support further research for therapeutic items of much wider application.

Now back to our table. Obviously no numbers will tell how smart a particular company's scientists are or whose researchers are apt to make a major breakthrough. But some comparisons are possible. Market value figures, for example, indicate that investors still hold Genentech in highest esteem. The company has a combined market value over \$650 million—roughly the same as Bausch & Lomb. By contrast, several of the industry's smaller firms have values well below \$100 million. Could they be acquisition targets?

Thanks to investor enthusiasm for technology stocks, nearly all of these companies are trading comfortably above their offering prices. But Amgen, Applied Biosystems, Cetus and Damon Biotech sell at discounts.

Discounted dreams? It might al-

ready be happening.

Next look at the cash-per-share figures. Anyone who invests in this industry basically hands over his money and says, "Discover something that will make us both rich." But when you buy Viratek at \$15 per share, management has a mere 5 cents of that amount to play with, while a \$13 stake in Amgen will bankroll \$4 worth of research.

Finally, pay attention to the last two columns. It is always worthwhile

to know how much faith the promoters have in their promotion. For most of the companies on the list, the public has put up well over half of the money. But how much did investors get in return? Seldom more than 25% of the equity. Those aren't comfortable ratios.

Most important of all: Know that you are shooting craps even with the best of these stocks—and at these prices the odds are stacked heavily against you. ■

Brokers love to cook up mathematical schemes for beating the market. Here's a favorite recipe, and why it won't work.

The dollar-cost sure thing

By William Baldwin

NOW THAT STOCKS are back in style, one of the securities industry's oldest sales gimmicks is making a comeback: "dollar-cost averaging." You put a fixed dollar amount into a given investment every month for a long time. At the end, through all the ups and downs, you probably have made no killing. But you can be sure—so it is claimed—of having picked up shares at a bargain average price. "Dollar-cost averaging is a mathematical certainty," says Connie S.P. Chen of Chen Planning Consultants in New York City. "It's a sound and proven technique."

The technique can be applied at many mutual funds, which welcome customers who want to set aside a level contribution of, say, \$200 or \$1,000 a month. The fund sponsor keeps track of fractional shares. Merrill Lynch makes the same kind of buying possible for individual stocks and precious metals, through its Sharebuilder Plan. The program, which has gathered almost \$2 billion, is suitable for dollar-cost averagers who put in as little as \$25 every month, and even offers discounts on commissions.

Here is the attraction, as stated by James Fullerton, vice chairman of Capital Research & Management, which runs the \$7 billion American group of mutual funds: "If you dollar-cost average, you will buy shares at a lower average cost than the average price of the shares on the days on which you buy."

An exaggerated example will illustrate the arithmetic. An investor puts \$120 a month into a fund for three months. The first month the shares are at \$5, the next month at \$30, the third at \$10. The average of these three prices is \$15. But the dollar-cost player gets 24 shares the first month, 4 the next, 12 the third, a total of 40 for his \$360 investment. Presto, his average cost is only \$9.

For a real-life illustration, look at the chart on the next page. If only you had put \$100 a month into Chrysler for a decade, beginning in 1973, you would be in the catbird seat now, what with the stock trading near 32 today. That is less than it was at the beginning of this period. But if you had hung in, you would have more than made up for it by getting larger blocks of stock whenever the price was a bargain.

The beauty part is that the state-

ment Fullerton makes about averages always holds. No matter which way the stock zigs or zags, your average cost is mathematically certain to come out lower than the average price of the shares during the buying period. Maybe not by a large amount, but always lower. This seems to be, if not a free lunch, then at least a blue-plate special.

If you aren't getting suspicious now, you should be. Hasn't it been proved again and again that there is no way to beat the market with mathematical tricks?

The fallacy of dollar-cost averaging is subtle. "The average cost will be lower," explains Thomas Copeland, an associate professor of finance at UCLA. "But what does that mean? If a stock has been falling, the only reason for buying more and more is that you are expecting it will turn around and come back. There's no reason it has to turn around." Implicit in the sales pitch for dollar-costing is the intuitively appealing notion that depressed stocks or mutual funds have a particularly good chance of recovering, as Chrysler eventually did. They don't. For every Chrysler there is a Studebaker.

Hence the old saying: "What has killed more investors than heart at-

tacks? Answer: Averaging down." A lot of people bought Braniff International at 8 because it once sold at nearly 20. Now you can't get \$3 for it.

Stock prices have no memory. A former \$40 stock on the bargain counter at \$20 isn't any more likely to go to \$40 than any other equally risky \$20 stock. Says Copeland, attacking a cherished notion of many stock market players: "There's no such thing as a trading range."

Brokers are loath to admit this. They get a lot of commissions from in-and-out traders, people who think they can make money buying Chrysler whenever it hits \$20 and selling whenever it hits \$40. Behind dollar-cost averaging lies the same allure, since it promises that you will be a relatively heavier buyer at \$20 than at \$40.

Academics' logic has not deterred Fred Kerpen, a New York financial planner and long-time advocate of dollar-cost averaging (FORBES published a letter of his on the subject in 1958). Now, with the help of a recent *New York Times* article, Kerpen is promoting "reverse dollar-cost averaging." When you retire and begin to liquidate your mutual fund shares, he says, don't draw a fixed dollar amount each month as most people do. Instead, sell a fixed number of shares.

Your average selling price will come out higher that way. "It's a rule without an exception," Kerpen boasts.

To follow this argument, go back to the example: If the prices are \$5, \$30, \$10, and you are drawing a fixed \$120 a month, you have to liquidate 40 shares. If you had sold a fixed 8 shares a month, you would have received \$40, \$240, \$80—the same \$360 total, but you would have liquidated only 24 shares. In Kerpen's world, you beat the market coming and going.

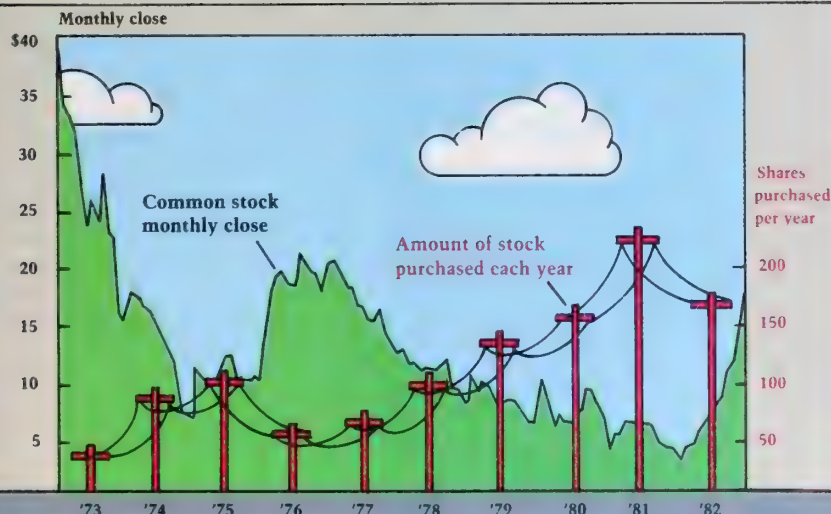
Unfortunately, tricks with average numbers don't work in investing. If they did, you could make a black box for generating certain profits: Simultaneously buy a varying number of shares every month according to the dollar-cost formula, and sell a fixed number of shares under the reverse formula. "I guarantee it won't work," says Professor Copeland.

Why won't it? The catch is this: You don't know in advance the correct number of shares to sell. In the hypothetical scheme above, selling 8 shares works out perfectly. But what if you start by selling 24 shares to get your monthly \$120? By the end of three months you've withdrawn \$1,080 and probably fouled up years of retirement planning.

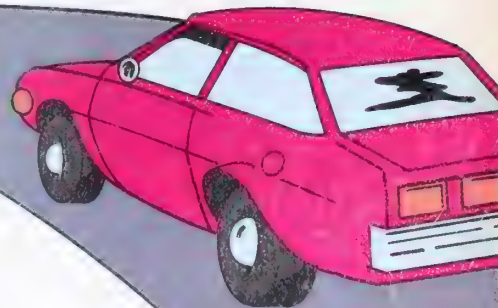
It seems, at first blush, as though the principal weakness of reverse dollar averaging is the fluctuation in the monthly checks from the fund, which could hurt folks on tight budgets. But the fallacy runs much deeper. Even David Rockefeller would gain nothing from the technique.

Copeland is no fan of the random-walk theory, and he concedes that depressed stocks are sometimes available for a bargain. All he is saying is that you won't find those bargains merely by reading price charts and playing mathematical games. Unfortunately, for making money in the stock market there is no substitute for buying cheap and selling dear. Equally unfortunate, there is no simple-minded way to know when stocks are cheap and when they are dear. ■

A nice ride on Chrysler



It's easy to be sold on dollar-cost averaging when you look at a price chart like this one. Putting \$100 a month into Chrysler for a decade ending last December would have given you 1,216 shares, for an average cost of \$9.87—even though the stock traded at an average \$12.81 during the period. That's because you would have automatically bought more shares precisely when the price was low. But don't be fooled. The allure of this buying strategy rests on a dangerous assumption: that depressed stocks stand a particularly good chance of recovering. They don't.



This famous old money management firm is changing its ways. Could it be fattening itself for the market?

Seligman wakes up

By Barbara Rudolph

IN "Our Crowd," a history of America's rich and powerful German Jewish families, author Stephen Birmingham calls the Seligman "American Rothschilds." "They occupy an anchoring position in the crowd," he writes. "Without them it is possible that there might have been no crowd at all."

The Seligman clan is long gone from the money management and investment advisory company of J. & W. Seligman, which manages \$4.6 billion and is now owned by employees. But the conservative, almost old-fashioned aura lingered. The firm was late into money market funds, slow to bring out new mutual funds, cautious in investment policy and little known to the public. Its light was hidden under a bushel, and management seemed not to care. In 1982 the company launched its first major ad campaign in 118 years, and the headline rightly asked, "J. & W. Who?"

Seligman, however, remained a power to be reckoned with. It managed a handful of mutual funds, as well as the \$1.1 billion Tri-Continental, the nation's largest closed end. Still, the focus often seemed more on preservation than enhancement of capital: Ten-year performance of Seligman's growth and common stock funds is below average for their groups.

Now change is afoot. An aggressive capital appreciation fund, Seligman Capital, is one of the top 15 performers of 1983, with a return of 135% for the year ended June 30. Last June Seligman set up a trust company to keep

and lure accounts. In addition, the firm is expanding its marketing staff and raising advertising budgets.

More important, Seligman did very well at starting its first new equity fund in 13 years: With no major brokerage house affiliation and against stiff competition, the Seligman Communications and Information Fund raised a respectable \$53 million. Some of that success, of course, is testimony to the public's seemingly insatiable appetite for high-technology stocks. But the new money also reveals Seligman's improved reputa-



Seligman Chairman Brown and President Schroeder
Reorganizing to make money.

tion among the broker-dealers who sell its products.

Why the excitement? Seligman came out of its shell in January 1981 when it received permission to reorganize. In the old days Seligman funds had a unique fee structure. Industry practice is for funds to be run by advi-

sory organizations that seek to make as much money as possible from management fees. But Seligman shareholders got a bargain. The firm's investment funds collectively owned their distribution and advisory companies, and operated them at cost.

Of course, Seligman partners weren't running a charity. In a good year their brokerage division could rake in two-thirds of all commissions generated by the funds in listed securities—a steady, certain cash flow. But as salaries for money managers escalated, Seligman's unusual structure posed a threat. Unless the firm and the funds could increase their income, they couldn't attract top talent.

Fred Brown, Seligman's tough, longtime managing partner, decided to create an independent advisory arm and charge management fees—just like nearly everyone else in the mutual fund industry. But it took three years for the SEC to accept Seligman's proposal, and not until 1980 did the funds' shareholders finally approve the change.

Brown and his colleagues couldn't be happier with the results. As a group, they kicked in \$3.3 million to capitalize J. & W. Seligman & Co. Inc., and last year's fee income topped \$10 million. With the boom in mutual funds and buyers shopping for management companies, the restructured Seligman could now be worth around \$45 million.

Shareholders aren't complaining, either. True, they are now paying management fees. But the firm's common stock fund is up 68% for the year ended June 30. The growth fund is up 78%, and Seligman's income fund is up a respectable 34% for the period. Even Tri-Continental Corp., long a laggard, is up 69%. This time, the Seligman funds are happily keeping pace with the bull market.

Now that it is a money machine again, will Seligman sell out and become part of a financial services conglomerate—as IDS has agreed to do? Both Brown, who is now chairman, and President Ronald Schroeder claim not: There is room for independent money managers, they say, as well as department stores of finance. But Brown is 70, and, no doubt, plenty of Seligman shareholders could be persuaded to sell if the price were right. An SEC agreement that puts restrictions on the firm's sale will expire in 1986, and the resurgent Seligman is then bound to receive some tempting offers. ■

Merrill Lynch's new unit trust will provide AT&T holders with some conveniences. But convenience always costs money.

A fund only a mother could love?

By Richard Phalon

NORMAN SCHVEY, who manages a big chunk of Merrill Lynch's mutual fund business, has an 86-year-old mother who is deeply attached to her eight shares of AT&T. For months now, she has been asking her son: "What should I do with my AT&T stock?"

The same question has been bugging many of Telephone's 3.2 million shareholders in the wake of the anti-trust settlement that splits the company into eight parts: seven regional operating companies, and a manufacturing and technical entity that consists of Western Electric, Bell Labs and the Long Lines business. After January, when the settlement becomes effective, many AT&T holders are going to have a lot of paper to juggle: the shares they already hold in the parent, plus one share in each of the seven regionals for every ten shares they hold in the parent. This could be pretty confusing. All that paper. All those decisions.

Should shareholders stand pat with the eight pieces of paper? Sell all the regionals and put all the chips on the now unregulated Bell's move into the most promising areas of the communications business? Sell some of the dimmer-looking regionals and put the proceeds into those with shinier prospects? Or say "so long" to Bell entirely and put the proceeds into a stock that's easier to understand?

Norman Schvey, dutiful son and demon merchandiser, has come up with what he thinks is the answer for his mother and her fellow shareholders. It is also an answer that should do jolly

things for the ever-ringing cash register at Merrill Lynch.

Schvey's solution: a fund in which holders can exchange their shares for unit trust certificates. The vehicle will permit Mrs. Schvey to preserve in the split-up company exactly the same position she has held in the old AT&T for years. Humpty-Dumpty will be put together again.

Going into the trust could spare her some potential tax liabilities, relieve her of almost all administrative decisions, and provide her with a monthly, instead of the customary quarterly, dividend stream.

Merrill's Equity Income Fund, developed with three other sponsors (Dean Witter Reynolds, Prudential-Bache and Shearson/American Ex-

press), is the first such vehicle to materialize on Wall Street. Others are likely to follow, including one from E.F. Hutton.

The big question, of course, is how the advantages and disadvantages of Wall Street's packaging efforts match up against the low-cost exchange options Bell itself is offering shareholders. Could the Merrill unit trust prove to be a fund only a mother could love?

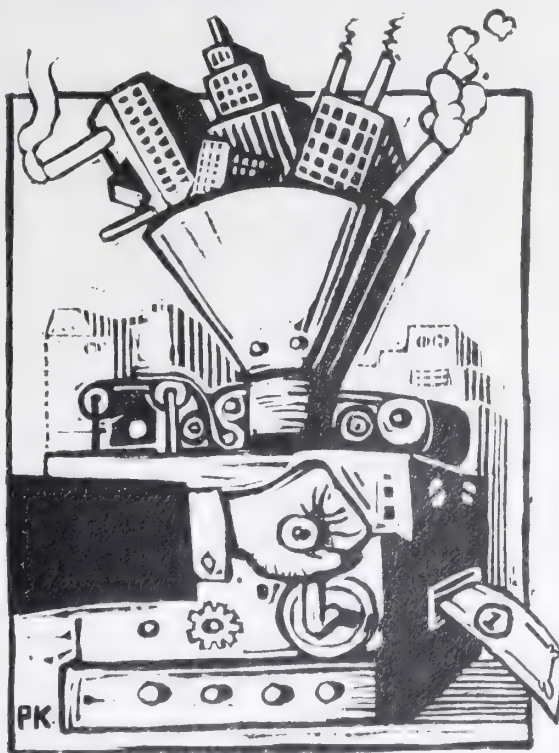
Maybe. Convenience always costs money. The initial charge on the trust is 1.5% of the value of the AT&T shares exchanged. There are also operating costs to contend with. The costs, though they bite into income, may for some investors be balanced by what could prove to be a useful escape hatch. Up until next July, investors in the Merrill Trust will have the right to trade their units back into AT&T stock in kind and in any combination they want—all into one or two regional companies, for example, or all into the parent itself.

A swap into the parent is the only option AT&T is not allowing its shareholders. Otherwise, though, the company has opened up some useful alternatives. Investors like Mrs. Schvey who own less than ten shares—some 17% of all holders—will be given cash instead of fractional shares in the regional companies. They have the option of expanding their holdings to ten shares, through AT&T's no-fee dividend reinvestment program, thus entitling themselves to one share in each of the regionals.

Holders of more than 10 shares but fewer than 500 have a one-time option until Apr. 15, 1984 of switching their regional holdings around at the discount price of 50 cents for each round-trip trade. Holders of more than 500 shares wanting to stay with Bell can save themselves a lot of paper shuffling by putting the regional shares they receive right back into the regional companies' dividend reinvestment programs at no cost (or tax liability) whatever.

When-issued trading on all the new Bell stocks is scheduled to open on the Big Board in November or December of this year. Only then will investors know how the market values the different pieces of the old Bell empire.

Pursuing alternatives now, without the help of the market, is like shooting a shotgun in a dark closet. There's no telling what you're going to hit. Mrs. Schvey, please—a little more patience. ■



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The 12-year rule for the half-life of GNMA pools has become a myth. Unfortunately, many people don't know that.

OLDER IS BETTER

By Ben Weberman



They may be startled to discover it, but such prestigious newspapers as the *Wall Street Journal* and the *New York Times* are helping perpetuate a myth that could cost small investors dearly. They, and many other newspapers across the country, use yield tables based on the assumption that passthrough pools of 30-year residential mortgages, based on a historical average, prepay in 12 years. If that hardly seems the stuff of massive transgression, read on.

The 12-year rule was calculated back in the early Seventies by Financial Publishing Co. of Boston, which puts out yield-to-maturity tables on just about every kind of fixed-income security. In those days, interest rates were stable, and mortgages were all around 6%. Now interest rates are unstable, and mortgages, depending on how old they are, range anywhere from 5¼% to 17½%. What this means is simple enough, when you think about it: If you have, say, an 8% mortgage on your house, you are crazy to pay it off. But if you got stuck with a 16½% mortgage in 1980, you will refinance without delay. Applying a 12-year rule to these extremes when figuring yield to maturity is meaningless to investors—and also dangerous. "The 12-year rule served its purpose in the Seventies," says

Chuck Ramsey, a vice president with Marcus, Stowell & Beye Government Securities of Houston, who has worked out real yields for many Government National Mortgage Association passthrough pools. "But in today's markets it doesn't work."

For example, on July 14 the newspapers' GNMA tables showed the 16% Ginnie Mae pool of passthrough certificates—16½% mortgages less a ½% service fee—as trading at 107¹⁶/₃₂ to yield 14.59%. But the yield is really much lower. Why? Because the actual remaining life of the mortgages in these pools will be about two to four years, tops—not 12 years. Since the certificates are selling at 107½, every time one of those short-lived mortgages is paid off at par, investors lose 7½ cents on the dollar. Crank all of this into the computer and the *real* yield to maturity of the 16s is closer to 8.69% than 14.59%. You would be better off buying a 10- or 15-year U.S. Treasury issue paying 11.5% or so.

This is not to say that GNMA pools aren't a good investment, only that any yield figured on a 12-year average life can lead to a big disappointment for investors. Two other passthrough instruments are almost as secure and pay an even higher return (although they are not full-faith-and-credit obligations of the government, as are GNMA's). These are the pools of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corp.—"Fannie Mae" and "Freddie Mac." They consist mostly of conventional mortgages, with a few FHA/VA pieces included. Most of the mortgages come from thrifts, and others from mortgage bankers. Principal repayment is rapid. A typical 8% Freddie Mac pool, for

example, is paying back principal 5 times faster than most 8% GNMA pools. A case can be made, using Ramsey's data, that some of these pools yield 1% to 2% more than GNMA pools of stated comparable coupon and maturity.

The reason is rooted in a well-known characteristic of home mortgages: They have a uniform monthly payment, but they don't make a uniform monthly contribution to principal repayment. Early in the life of the mortgage, of course, most of the payment goes for interest and very little to principal. Toward the end of the term, it's just the reverse. In a \$1 million, 30-year GNMA pool with a typical 8% coupon, for example, only \$606 of the principal is repaid in the first month. However, \$7,635 is repaid in the final, or 360th, month.

Since a passthrough pool merely passes through proceeds to the security holders, this means that the older the mortgages, the larger is that part of the return constituting return of principal and taxed as capital gains, instead of ordinary income. That's why Freddie Mac and Fannie Mae pools are so very attractive—because the mortgages are generally older.

Whether in highest quality GNMA or higher yield FNMA or Freddie Mac, older mortgages are best. Make sure it has a coupon lower than the currently prevailing 12½% level of new FHA mortgages and that it trades below par, so that as principal comes in, it's a capital gain and not a capital loss.

Words of caution

When Paul Volcker testified before Congress on July 20, the stock and bond markets reacted with strong rallies. My own interpretation is more sober. I detected a subtly increased tone of worry about the reheating of inflation. Also, by raising the Fed's permissible limits for M1, he drew attention to this controversial measure of the money supply and thus limited the Fed's flexibility. So, if M1 growth exceeds his new targets, he will have to react strongly or risk the Fed's credibility, even though he is only "monitoring" the aggregate. The bottom line is that we are in for a somewhat longer period of high interest rates than I previously expected. ■

Ben Weberman is economics editor of FORBES magazine.

It's too soon to move out of long-term bonds, but it isn't too soon to start getting nervous about them.

INFLATION IS DEAD, BUT...

By David Dreman



Rapid inflation, most economists tell us, if not dead, is at least hobbled for years to come. The forecast is made at a time of a swiftly improving economy, superdepressed prices for many basic commodities, huge government deficits and a money supply rising at an alarming rate. What if the unthinkable happens and these worthy experts actually prove wrong? (It wouldn't be the first time.)

Since the experts aren't infallible, it seems wise at least to think about protecting oneself in the event they are wrong about inflation's being under control. We know that inflation is the mortal enemy of the Fed, particularly a Fed led by Paul Volcker. It follows that if inflation reignites, the Fed would throw its entire arsenal against it, spearheaded by its megaweapon, sky-high interest rates. This would send the bond market into a tailspin.

The horror stories are still fresh of what happened to people caught in long-term bonds between 1980 and 1982, the last time interest rates rocketed. The drop in bond prices then was stomach-wrenching, as the table shows. When rates rose from 12% to 16%, a 12%, 25-year bond dropped 25%. If you held a

bond of the same length that had a 10% coupon, the loss would have been a crushing 40% of your capital. Unfortunately, this was more the rule than the exception. And, if you were unlucky enough to hold long municipal bonds, the declines were even more severe.

It is worth noting that the swings in each ensuing interest-rate cycle have become progressively worse. In the Fifties rates fluctuated in a 5%-to-8% range. By 1980-82 rates moved up and down like a demented elevator. The swing from trough to peak was an amazing 8% to 22%.

And so the first rule dictated by the magnitude of recent interest-rate cycles is the need for the inves-

The bottom line to me, then, is that investors can still buy or hold intermediate or long-term bonds for some time to come. As a contrarian, however, I would play loose and stay in larger, more liquid issues, so that when the time was right, the cost of disposing of them would be one-fourth or one-half of 1%, rather than 3% or 4% for obscure or rarely traded issues.

Later on, possibly six months to a year down the pike, with the likelihood of a much stronger economy, it's probable that inflation rates will begin to creep up again, undoubtedly accompanied by statements of concern from Fed and government officials. That's the time to run for the hills. At that point I would cut back my maturities dramatically to a year or less or buy T bills and money market funds. The name of the game is simple: Preserve your capital. The loss in yield from shortened maturities is peanuts compared with what you could lose by staying long when the Fed was tightening the monetary screws.

In my column of June 7, 1982—just over a year ago—with long-term yields at record levels, I wrote that it was "probably the opportuni-

The effect of interest-rate changes on bond prices

For simplicity, it is assumed that all bonds have 12% coupons. The yield to maturity was calculated in all cases.

Term of bond	10%	12%	14%	16%
10 years	\$112.46	\$100.00	\$89.41	\$80.40
15 years	115.37	100.00	87.59	77.50
20 years	117.16	100.00	86.67	76.20
25 years	118.26	100.00	86.20	75.50

tor to be both flexible and responsive to changing economic conditions and Fed thinking. Presently, the economy is still in the early stages of a recovery, capital utilization rates are low and unemployment remains at unacceptably high levels. Given this picture, it's unlikely inflation will spurt ahead quickly near term, requiring immediate major hikes in rates, which might abort the recovery—not to mention the Reagan presidential campaign next year. In addition, during the six periods of sustained recovery dating back to the Fifties, long-term rates have moved up only moderately in the first 18 months after the economy bottomed.

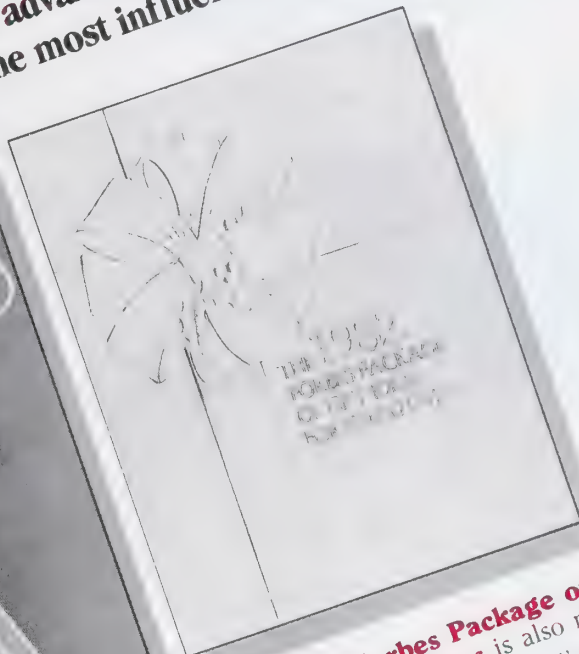
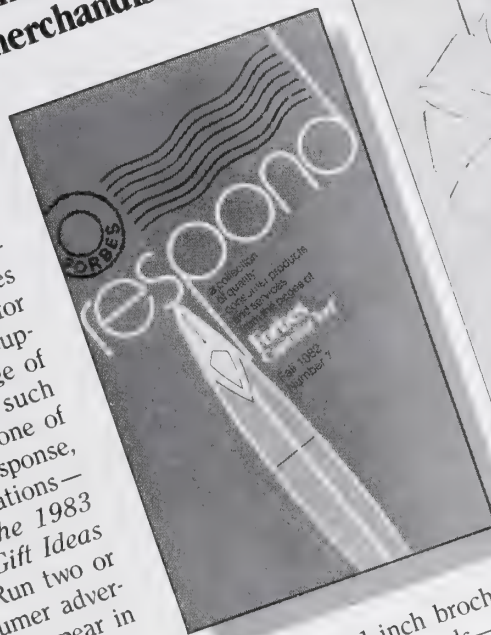
ty of a lifetime for brave investors. I say brave because bravery is what it takes to buy something that has done badly." The recovery in bonds from that point turned out to be dramatic. Investors buying corporates or municipals at these high rates sometimes wound up with even better returns than were scored in the stock market last year.

Unfortunately, what can go way up can also go way down. That's why, as a contrarian, I advise people not to stay too long with long-term bonds. Keep your eye on the Fed. And be ready to take your money and run. I say this because the high degree of consensus about inflation makes me nervous. Very nervous. ■

David Dreman is managing director of Dreman, Gray & Embry, Investment Counsel, New York, and author of *The New Contrarian Investment Strategy*.

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WHEN THE MUSIC STOPS

By Thomas P. Murphy



Recently, at the end of a meeting in a hotel ballroom, an old friend, a successful venture investor, was rushing for one door while I was buttonholed at another. "We're up five times," he shouted at me over the din, "five times on all the listed stuff in our portfolio!"

Venture capitalists are racking up hundreds of millions, maybe billions, in profits—mostly paper profits—on companies they have taken public. At some points over the past few months, the market for growth stocks, to quote an investment banker, "looked like a feeding frenzy." A feeding frenzy, in case you are not a fisherman, occurs when bait is thrown to a school of hungry fish. They go wild, slashing at the bait, each other and anything else with the temerity to move.

A hot stock market, like a feeding frenzy, can get a little wild. With this one pausing to catch its breath, it may be a good time to review what has happened. And what has not happened.

As broadly measured by the Value Line index, the current stock market sells for about 13.5 times earnings. Since we are still early in an economic recovery, with very good earnings increases ahead both this year and next, and inflation contained, it seems to me that the mar-

ket as a whole is not overbought. The market has come a long way, but it has not gone crazy. The real whoop-de-do has occurred in a fairly narrow spectrum of the market—the growth stocks and their sleazy cousins, the bogus growth stocks.

Let me explain the distinction. Any strong stock market has an appetite for growth stocks, but this market has been exceptional in one sense. The quality growth stocks, and most of them are companies backed by venture capitalists, simply have not been available to the public stock buyer. Institutions, with their clout with the underwriters, have bought nearly all of the original public offerings and are holding on to them. Thus, the public's play in this market has been in the aftermarket for the original public offering stocks or with the growth funds (which have done superbly). Unfortunately, the public's play also has been in synthetic growth stocks or in overpriced stocks selling on tips and rumors.

Where do we go from here? The answer lies in the expectations of the institutional and individual investors who are riding these growth stocks and have, so far, experienced a succession of miracles.

Their reactions are especially hard to predict because so many of them, both in the public and in the institutions, are under 35. These people are having their first fling in a hot market. What kind of tolerance will they have for setbacks? Do they have the patience and the nerve to hold stock in a good company that happens to be going through a bad patch? Or even just a lusterless stock market?

My guess, for whatever it is worth, is that they will hang in. These younger stock owners, unlike my generation, grew up with sci-

ence and with the notion that small is beautiful. They are unimpressed by large companies. They are comfortable with the idea that brains and a belief in the future will prevail. This is in sharp contrast to my, older, generation, which always has had trouble staying convinced.

I do think, however, that for the new generation there are some expensive lessons yet unlearned. I'm not sure that they have distinguished between a good high-tech story and a good high-tech company. One promoter, two biologists and a petri dish do not make a Genentech. As in every hot market I have ever seen, there is an initial wave of companies going public that offer quality and excellent growth prospects. This then coaxes from the woodwork a swarm of promoters with bogus growth—i.e. high-tech—companies.

If buyers would only read prospectuses. Today you will see biographies in many prospectuses of people who know absolutely nothing about the businesses they are in. For a time in the late 1960s you could double the stock price of a company by adding a word like Electronics to its name. Now try Bio-something-or-other.

So, what does the investor do? If you are playing with the funny stuff, please remember the name of the game and get out before the music stops. On the other hand, if you are truly in for the longer pull, check the merchandise in your portfolio for the following virtues: 1) a record, though it will probably be brief, of real sales and real earnings growth—companies without that just don't belong in the public market; 2) management résumés that show solid and successful previous experience; 3) venture capital backing—that means someone else out there really cares about management performance and the price of the stock; and 4) public stock offering through good underwriters.

Will the bottom fall out of the growth stock market? I'm afraid it will. The bottom always does fall out at a certain stage. When that happens, just about everything will go down. The good stuff, the solid stuff, will eventually come back—and then some. The trash will make interesting wallpaper, and there will be lots of it. ■

Thomas P. Murphy heads a venture capital firm, Partnership Dankist, Stamford, Conn.



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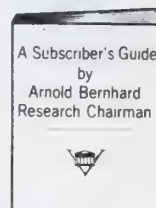
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Neither good corporate earnings nor economic recovery has spurred a market whose current direction is down.

WHERE HAVE THE BROKERS GONE?

By Ann C. Brown



The office telephones that had been lit up like an arcade video game since last August are dark and silent. The telecopier is set and ready to receive messages no one bothers to send. And the mails bring precious few research reports and recommendations and even fewer prospectuses for sizzling new issues with names like Genemedix and KadKam Komputron. Clearly, little is up on Wall Street these long, hot summer days—including stock prices. The market is showing the weakness I have been talking about for the past couple of months.

Calls to a random selection of security analysts, stockbrokers, market strategists and technicians revealed that many of these deserving rich were in Europe to pick up their six-figure roadsters, while others were only as far away as the Hamptons, frolicking in their recently acquired 20-room hideaways by the sea. Frequently joining in these pleasant pursuits were some of the more important clients, whose commissions helped make it all possible and whose absence from the market at the moment may account for the low-to-middling volume of recent weeks. Once the holiday passes and the players exchange their L.L. Bean putter-

pants for Brooks Brothers pin-stripes, the slide may pick up steam. My guess is that the market will trend down until early October. By then the Federal Open Market Committee may decide it can loosen its currently semitight monetary policy, once the economy seems to be back on the slow-growth track.

The trickle of second-quarter earnings reports has now become a torrent. At first, it was the good-news companies rushing to show-and-tell their successes to the investment world. Now, some less-than-stellar performances are beginning to appear, proving that the recovery hasn't spread to every sector as yet. What has been interesting to watch is how surprisingly good earnings have been greeted with relative indifference, while disappointing results, even moderately so, have dealt some heavy blows to stock prices—further signs of a market whose current direction is down.

Over the past several issues, I have been putting together a list of possible buys come the Indian summer rally I foresee. However, for the moment, it may be more meaningful to review the present prospects of the 5 stocks out of the 45 I recommended from January through June that failed to go up. Also worth a line or two are the five top performers, which could be vulnerable.

Tandy (47) is the largest loser on the list, although, since the original recommend, at a split-adjusted price of 11 in August 1978, the stock has been a winner. Mentioned most recently in May, at 59, the fault was my timing, not the company's earnings, which continue to be estimated at \$3.60 per share in 1984, with the growth rate at 25% per year.

NBI, Inc. (34) was recommended at 36, after a nasty shortfall in earnings. The stock continues under pressure, although orders and shipments are on schedule and fiscal 1984 earnings per share could be around \$2, vs. the 65 cents expected for the year ended June 30, 1983. Estimated annual growth rate: 40%.

American Broadcasting Cos. (61) looked good at 65 and looks even better at the present price, although a shaky market could drag the stock into the mid-50s. Earnings are on target, with \$7.50 or more expected in 1984, thanks to the elections and the Olympics.

Warner Communications (24). Everyone has an albatross, and WCI is mine. I liked it all the way up—and all the way back down again. At 28 the stock looked as if it couldn't get much lower. I was wrong, and the latest estimate of 1983 earnings per share of 15 cents won't help much either. Allegedly \$2.85 is possible for 1984. However, for my money, better rewards exist for the risks.

Syntex (55) is down 3 points from the April recommendation. No particular reason other than the stubbornly strong dollar, which will adversely affect overseas earnings. Fiscal 1983 earnings are now estimated at \$4.10 per share, and estimated 1984 earnings have been lowered from \$5.10 per share to \$4.90.

Many of this year's recommends have done very, very well—so far. Take *MGM/UA Home Entertainment Group* (27), for example. The stock rose a whopping 76% from its late February mention at 15. At the current price I would be inclined to beat those other profit-takers to the draw. The same goes for the number three performer, *Western Digital* (12¾, o-t-c), which popped up 59% from a price of 8. *Western Digital* is selling at 37 times estimated 1984 earnings per share of 36 cents. Too high a profile to carry into a market bent on correction.

Thermo Electron (32), up 62%, looks like a hold, in spite of its recent gain. Preliminary estimates are for \$2.50 per share, or a P/E of 12, for a company with an estimated growth rate of 20%. *First Virginia Banks* (18) and *NCNB Corp.* (27) were up 46% and 40%, respectively. Both are strong holds, and the stocks should be bought on any weakness. ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio management firm of A.C. Brown & Associates.

Operating a "paper refinery" can be fun and a lot more profitable than running one with all those pipes and gauges. And you don't have to get your hands dirty.

A REFINED PROFIT

By Stanley W. Angrist



How would you like to operate your very own oil refinery without the bother of building cracking towers, hiring employees or doing any of the myriad things a refinery owner must do? If you want to pretend you are an oil baron, the commodity markets have a deal for you.

The recent addition of a crude oil contract by two exchanges, coupled with existing heating oil and gasoline contracts, now permits you to buy a refinery's raw material (crude) and sell two of its major products (gasoline and heating oil) if you think the operating margin of your fictitious refinery is too high, or buy the products and sell the raw material if you think the operating margin is too low. The former spread has been termed a "crack," the latter a reverse "crack."

A refinery buys crude oil and then cracks the hydrogen and oxygen bonds of the oil's atoms—mostly by the application of heat—into a wide range of petroleum products. The typical barrel of crude yields 55% to 58% gasoline and gasoline-related products, such as liquefied gases. The remaining part of the barrel yields heating oil and related products, such as residual fuel oil. Thus, about two-thirds of a crude barrel produces gasoline-related products

and the other third yields heating oil and its related products.

It should be recognized that this analysis is an approximation. First, refineries yield varying amounts of product, depending on what kind of crude they start with. Second, refineries can yield substantially different percentages of products, even if they start with exactly the same crude. The variations occur because of design differences in the refineries. Nevertheless, the prices of crude and its products tend to move in tandem, but not perfectly so, thus producing a profit opportunity for

while the products are quoted in dollars per gallon. The first task in deciding whether to do this trade is to calculate the profit margin for the refinery. Let's look at an example:

Buy three September crude oil contracts at \$31.57 per barrel. A total cost of \$94,710.

Sell two October gasoline contracts at 82.80 cents per gallon, multiplied by 42,000 gallons per contract. Proceeds: \$69,552.

Sell one October No. 2 heating oil contract at 84.75 cents per gallon multiplied by 42,000 gallons per contract. Proceeds: \$35,595.

Received from sells: \$105,147.

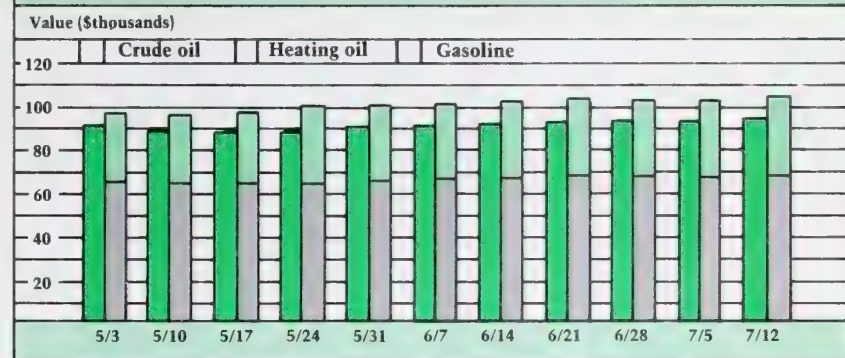
Net profit margin: \$10,437.

The profit margin is 11%, based on the cost of crude. Note that the crude contract used in our refinery is normally one month earlier than the product month. Though crude and products are traded on both the New York Mercantile Exchange and the Chicago Board of Trade, volume and open interest are substantially higher in New York.

Because this spread is so new, it is hard to specify when it would ap-

The refinery game

The chart shows the gross profit that can be made from operating a refinery on paper. The left bar represents the value of three September crude oil contracts. The bottom part of the right bar represents the value of two October gasoline contracts, while the top part of that bar stands for the value of one October heating-oil contract. The amount by which the right bar exceeds the left bar is the gross profit.



those traders who perceive a relative price distortion.

The model we will use in operating our paper refinery consists of three contracts of crude oil (our feedstock cracked into two contracts of leaded gasoline and one contract of No. 2 heating oil). All contracts are for 1,000 barrels of 42 gallons each, except that the crude oil is quoted in dollars per barrel,

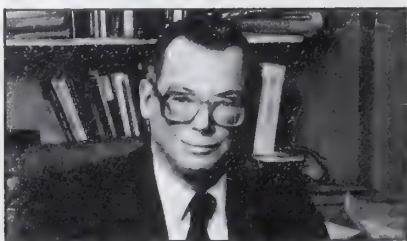
pear to be profitable to put on the crack or its reverse. I believe that a good rule of thumb would be to put on the crack (the spread shown above) when the profit margin rose above 12%. I would put on its reverse and lift the crack when the profit margin dropped below 10%. The margin on this spread would be \$1,500, and the round-turn commission about \$450. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

Having been beaten up repeatedly in recent decades, long-term lenders are about to get pounded yet again.

THE REVOLT OF THE SAVERS

By Ashby Bladen



For the last three years I have been warning *FORBES* readers that, until the inflation is obviously and decisively broken, a bull bond market is possible only so long as the economy remains severely depressed. And since March, I have been telling you that the current recovery will send interest rates through the roof once again. But now that rates have started back up, the one thing that politicians of virtually all persuasions are agreed on is that the Fed shouldn't let it happen.

What should the Fed do to prevent it? One old favorite prescription is that it should push down the interest cost of credit by increasing the supply of it. That used to work, but it won't work any longer. Today a serious attempt to depress interest rates by flooding the market with Fed credit would instead send long-term rates climbing to new peaks.

Interest is the rent that borrowers pay to get the use of purchasing power that they have not earned. It is also the reward that lenders receive for letting others have the use of purchasing power that they have earned but have not yet spent. So the going level of interest rates balances the demand to borrow and spend now with the supply that is

provided by people who are earning now but plan to spend later. That is simple and clear, but, unfortunately, it is not the whole story.

Complications arise because the financial system has the ability to create purchasing power faster than the real economy produces useful goods and services to spend it on. The system has had this ability ever since people have been willing to hold their savings in the form of promises to pay (like bank deposits and dollar bills) instead of limiting their holdings to real things (like land and gold coins). Borrowers can spend the purchasing power they have received, but the lenders can also spend the promises to pay as long as those promises are not being created so fast that confidence in their real value collapses.

During the last half-century the system has been creating liquid promises to pay at a progressively more rapid rate. That didn't affect interest rates until the savers began to catch on. The borrowers caught on first and reaped a bonanza from their alertness. Since World War II, the most successful Americans have been people who understood early that the Full Employment Act of 1946 gave the system a permanent inflationary bias that could be exploited by borrowing heavily to buy businesses or real estate. But as savers slowly caught on to the fact that the interest they were receiving was far less than the erosion of purchasing power they were suffering, the demand to borrow began to rise more rapidly than the supply of lendable funds. And that imbalance pushed interest rates up.

By now 20 years of seriously accelerating inflation has driven the point home, and, henceforth, practically nobody will save much of anything unless he is given a convinc-

ing reason to believe he will receive a positive real rate of interest for his trouble. The savers have rebelled and will no longer peacefully suffer exploitation.

The stage for this year's economic upturn was set by last year's very high real inflation-adjusted interest rates, which forced merchants and manufacturers to cut to the bone their investment in inventories. Now that the inventory tide has turned and sales are rising, shortages are developing. The restocking boom will push production, prices and interest rates up for the next year or so regardless of politicians' preferences or Fed policies.

But confidence in the future real value of promises to pay has been brutally battered. It is about to be battered yet again as the recovery pushes up commodity prices and interest rates, thereby depressing the market value of long-term promises to pay. The easy-answer boys, who brought us supply-side tax cuts without corresponding reductions in government expenditure, now say that the way to restore confidence is to go back on the gold standard. I, too, have argued that restoring a gold coin standard would help, but politically there is no chance of it unless a total collapse of confidence in promises to pay creates a tremendous crisis. Then we may have no other choice.

Even in the heyday of the gold standard, the *main* reason people did not borrow and lend excessively was that it was dangerous. Borrowers who could not repay went broke, and lenders to irresponsible borrowers suffered losses. But now the political trend is to insure everybody against practically everything and to bail out every overextended debtor whose bankruptcy would cause unemployment. So it is no wonder that financial prudence is approaching the vanishing point.

The inflation will be broken and moderate interest rates restored only when enough borrowers are *not* bailed out so as to scare everybody back into lasting financial prudence. But the opportunity to do that was botched last fall, and another good opportunity will not come until the next crunch and recession a couple of years down the road. Meanwhile, look for a replay of 1981 in the bond market. ■

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Developing Financial Crisis.

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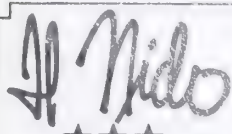
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Psychology & Investing

Why is it that, except for security analysts, corporate officials and the chairman's wife, few people read annual reports?

"TAKE YOUR REPORT AND..."

By Srrully Blotnick



Futility, thy name is Annual Report. Beyond perhaps poetry and first novels, few pieces of writing get so much care and attention from their authors as a company's annual report—and so little from the public. Corporate relations people sweat over them, lawyers tear them to pieces, art directors fuss, the chairman's family has veto power over the photography. And the intended recipients? A large majority casually dispatch the reports, unread, to the garbage. In my research, I've found that barely 3% of stockholders give them more than a glazed-over glance.

But hope springs eternal. Four New York Stock Exchange companies in recent months decided to do a shareholder survey to see not only how the firm's annual and quarterly reports were being received, but to determine the company's image in the minds of shareholders as well. Two of the surveys were conducted on the telephone, the other two by mail. The firms are in electronics; metals and mining; computers and financial services.

The results were hardly flattering. Typical comments from shareholders: "I don't read it. It's a waste of money sending it to me." "Feel

free to take me off the annual report mailing list. Besides, it costs more than the dividends I receive." Many of the responses were touchingly candid: "I would like to save you the expense of writing to me. Please don't misunderstand. I like you, but I don't know a thing about stocks and never will." A note written for one shareholder read: "Mr. Edwards is in his 95th year and isn't able to digest much data anymore."

Many shareholders indicated that they felt guilty about shirking the reading but justified their lethargy by criticizing the report. What did most find to criticize? Above all, the report's lavishness—its glossy pages and color photos. "This must have cost a fortune," was a typical reply. Others said: "Couldn't this money have been better spent on something else?" And: "The slick annual report tells me that the executives at the company are on nothing but a huge ego trip."

Is this fair to the executives who slaved over the reports, hoping against hope to put the company's best foot forward? Probably not. But it proves a point: Lavish presentation in annual reports is self-defeating. Far from getting the stockholders to read, it gives them an added excuse not to read.

Who does study the reports? Analysts, of course. And, interestingly, people who don't own the stock. As long as they haven't yet bought any shares, an attractive—and even lavish—annual report is something that they state helps make a good impression on them. As one, who is the president of a small firm, put it: "I like to see visible evidence that the company is doing well."

Once they have bought the stock, however, they become penny pinchers, convinced that the company is squandering its—or more accurate—

Dr. Srrully Blotnick is a research psychologist and author of Getting Rich Your Own Way and Winning: The Psychology of Successful Investing.

ly now, their—money trying to tout its virtues. A representative remark: "Don't these clowns know I already own the stock."

The majority of shareholders felt that the company's executives were earning too much money. What made that amusing was that less than 2% knew how much top officers were being paid and instead simply jumped to the conclusion that it was too much. As one put it defensively: "I assume they're making a bundle. I don't have to know the exact amount."

It would be a very rare annual report that provided this information, though proxy statements sent out during the year usually contain it as well as insider shareholdings. Once shareholders learned the actual amounts, there was a significant difference in their response to the information. People whose annual (1982) earnings exceeded \$100,000 felt that incomes in the \$100,000-plus range for the company's chief executives were appropriate.

However, more than 40% of the people earning less than \$50,000 felt that \$100,000 should be some kind of self-imposed ceiling on executive compensation. As one put it: "That's what I'd vote for if anyone asked me, but so far no one from the company has asked me."

At bottom there is a clear feeling among shareholders that annual reports are so utterly self-serving that reading them is a waste of time. The same people who tell me that they spend hours weekly reading the *Wall Street Journal*, *FORBES* and other business publications, barely look at annual reports.

As I mentioned, under ordinary circumstances only approximately 3% would read the report. But when these companies included a query card, about 15% of the respondents said they studied the reports. One shareholder in Southern California summed up the situation nicely: "I probably wouldn't have read the report had you not sent the questionnaire." Isn't that curious? On second thought, maybe it isn't. By including the query card, the company was at least asking the stockholders what *they* thought about something, instead of just telling them what *it* thought.

Apparently, what we need is a new approach to annual reports. ■

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Do you know anybody who is somebody in business who does not read Forbes Magazine?

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"The more things change. . . ." Items from past issues of FORBES



President Warren G. Harding died Aug. 2, 1923 and was succeeded by Calvin Coolidge



Sixty years ago in FORBES

From the issue of August 18, 1923)

"The nation mourns deeply the passing of one President who filled the high office with dignity and sincerity of purpose. And the nation welcomes the advent of another President who promises to fill the office with equal dignity and sincerity of purpose. Warren Gamaliel Harding was a worthy type of American citizen, modest, kindly, neighborly, human; greater perhaps as a man than as a statesman, than as a leader, than as a director of national policies; steadfast to principle, not always decisive, aggressive in action; a good man rather than a great man. Calvin Coolidge is less distinguished for his humanness than for his New England austerity, his deep-grounded convictions, his unswerving highmindedness, his immovable courage. The nation's destinies are safe in his care. . . ."

—B.C. Forbes

"Even without the material and moral advantages to its employees, the U.S. Steel Corp. would be for Prohibition, because it pays' [said Elbert H. Gary]. Judge Gary said that the Steel Corp., through its officers and plant superintendents in many parts of the country, had made a close observation of the effects of Prohibition, even before the adoption of the federal amendment and the enactment of the Volstead Act, by watching the results of Prohibition laws in the states. . . ."

"There has been a noteworthy decrease in the number of jails, asylums and hospitals. There has been an in-

crease, and a large increase, in the bank balances of savings deposits. The health of the people has improved. . . ."

"At the close of 1922, 18 states imposed a tax on gasoline consumption, but at the end of this year the number will be 36. California, with a 2-cent tax beginning Oct. 1, estimates an income from this source of about \$7 million, Indiana about \$4 million, Massachusetts \$3.3 million, Texas more than \$2 million and Pennsylvania \$3.5 million from a 1-cent tax. In all of the 36 states imposing a tax from 1 cent to 3 cents per gallon of gasoline, the whole . . . expected revenue [is] \$41.6 million."

Fifty years ago

(August 15, 1933)

"The N.A.C.C. [National Automobile Chamber of Commerce] code as submitted to Washington calls for 35 hours per week and a minimum wage ranging from 40 cents to 43 cents per hour, depending on the size of the city in which the plant is located. It retains the required provisions concerning labor and collective bargaining, but adds the following sentence: 'In accordance with the foregoing provisions, the employers in the automobile industry propose to continue the open shop policy heretofore followed and under which unusually satisfactory and harmonious relations with employees have been maintained.'"

"Do it yourself or the government will.' The moving letters that the new Administration has written large

against the backdrop of industry are probably largely responsible for the rather drastic curbs which the New York Stock Exchange has recently placed on unbridled speculation. After Sept. 15, members of the stock exchange must demand that all customers keep at least a 30% margin on accounts having a debit balance of over \$5,000; and at least a 50% margin on the smaller accounts with a debit balance of \$5,000 or less. The minimum margin requirement on short commitments will be ten points. Although old accounts have another month in which to get themselves in shape, the new margin requirements are effective immediately on newly opened accounts."

"What a glorious opportunity manufacturers of air-conditioning apparatus have to exploit their wares! True, several aggressive companies have been telling the public on a moderate scale what they have to offer. But much more could have and should have been done to hasten expansion of this industry during these summer months. . . . It is so sensible, so desirable that it should be in the homes not only of multimillionaires but of every family in the land that can afford it. Not only so, but the idea of air-cooling should be so aggressively sold that no large store, no theater, no hotel, no railroad, no public place of any kind could afford to be without it."

Twenty-five years ago

(August 15, 1958)

"In putting to press FORBES' Third Annual Report on Mutual Fund Performance, it struck us that this particular study might never have been written but for a powerful piece of federal legislation now 18 years old. More than any other single thing, the Investment Company Act of 1940 paved the way for the phenomenal growth mutual funds have since shown. A kind of investment company Magna Carta, the 1940 act set up a code of business standards by which funds, both old and new, have lived and prospered. Though it was regulatory in nature, the act is looked upon by mutual funders as the best friend they ever had. Says William Shelley, managing partner of Boston's Vance, Sanders & Co., one of many mutual funders to testify in the pre-act hearings: 'It saved the industry's life.'"

Avoid suspicion: When you're walking through your neighbor's melon patch, don't tie your shoe.
HINDUSTANI PROVERB

We do not take humor seriously enough.
KONRAD LORENZ

All the animals except man know that the principal business of life is to enjoy it.
SAMUEL BUTLER

It is my belief, you cannot deal with the most serious things in the world unless you understand the most amusing.
WINSTON CHURCHILL

Arguments are to be avoided; they are always vulgar and often convincing.
OSCAR WILDE

I hate a quarrel because it interrupts an argument.
G. K. CHESTERTON

Leisure is time for doing something useful; this leisure the diligent man will obtain, but the lazy man never.
BENJAMIN FRANKLIN

Work, love and play are the great balance wheels of man's being.
ORISON SWETT MARDEN

And he is in this led by an invisible hand to promote an end which was no part of his intention.
ADAM SMITH

Whenever the invisible hand isn't operating, the iron fist is.
BART KOSKO

Thoughts on the Business of Life

I pity any fellow who doesn't enjoy fishing. Fishing, somehow, stimulates reflection, tempers the vicissitudes of business life, encourages contemplation, calms one's nerves.
B.C. FORBES

Genius is intensity.
HONORÉ DE BALZAC

Men are disturbed not by things, but by the views which they take of them.
EPICTETUS

Patience and time do more than strength or passion.
JEAN DE LA FONTAINE

Unless a capacity for thinking be accompanied by a capacity for action, a superior mind exists in torture.
BENEDETTO CROCE

Absence of occupation is not rest; a mind quite vacant is a mind distressed.
WILLIAM COWPER

Iron rusts from disuse; stagnant water loses its purity . . . even so, inaction saps the vigors of the mind.
LEONARDO DA VINCI

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The art of becoming wise is the art of knowing what to overlook.
WILLIAM JAMES

Inventive genius requires pleasurable mental activity as a condition for its vigorous exercise.
ALFRED NORTH WHITEHEAD

What's wrong with gossip? We all live on it, but we deny it; we're hypocrites.
RONA BARRETT

I never make the mistake of arguing with people for whose opinion I have no respect.
EDWARD GIBBON

We hardly find any persons of good sense save those who agree with us.
LA ROCHEFOUCAULD

A Text . . .

Acquaint now thyself with him, and be at peace; thereby good shall come unto thee.
JOB 22:21

Sent in by Theodore L. Rose, Signal Mountain, Tenn. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Don't knock the weather; nine-tenths of the people couldn't start a conversation if it didn't change once in a while.
FRANK MCKINNEY HUBBARD

Indigestion is charged by God with enforcing morality on the stomach.
VICTOR HUGO

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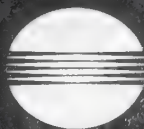
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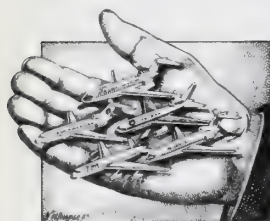
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Illustrations:

41, 138 bottom, Susan Grey; 43, Gary Viskupic; 46, 76, 79, 119, 156, Chas. B. Slackman; 122, Tim Lewis

Cover Illustration: Chas. B. Slackman

Forbes (ISSN 0015-6914) is published biweekly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription \$36 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011. Copyright © 1983 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

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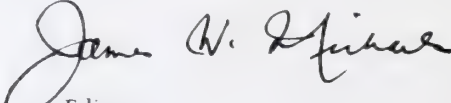
It was back in 1969 when the annual FORBES Mutual Fund Survey was only 14 years old and the stock market was headed south after it had nudged the 1000 mark for the second time. FORBES interviewed Paul Cabot, Boston's colorful and brilliant money manager, who used a most effective metaphor for describing what investing is all about. He compared it to a sailboat race: "What counts is not how fast you go with the wind behind you, but where you are when it's all over." Translated into advice on picking mutual funds, Cabot meant: Don't pick the fund that leads when the market is roaring ahead but the fund that has demonstrated an ability to manage well under all kinds of market conditions. That's what the FORBES consistency ratings are all about. That's the basis on which we select our honor roll of funds. We look for good performance in foul weather as well as in fair. The 28th annual FORBES Mutual Fund Survey starts on page 76. Barbara Rudolph did the text.

Lies, damn lies, and poverty statistics

Norman Podhoretz' *Commentary* magazine is good reading for those who want to penetrate beyond the clichés and smug slickness of most modern journalism. I especially recommend to FORBES readers an article in their August issue: "The Rich, the Poor & the Reagan Administration," written by the philosopher Michael Novak. According to a recent Gallup poll, 75% of the American people believe that President Reagan's economic programs "hurt the poor." With sound figures and clear logic Novak shows that this 75% of the American people are dead wrong about the impact of the Reagan policies. Is it any wonder that most people have gotten the whole thing backwards? For example, the media last month were blaring as gospel statistics purporting to show that poverty has increased during Reagan's time in office. On page 39, FORBES Washington Bureau Manager Howard Banks looks closely at the highly publicized poverty statistics being used as ammunition against the President's policies. Read our article, then read Novak in *Commentary*. You'll better appreciate what a lousy job most of the media is doing in covering the economy.

You shall not crucify. . .

The media aren't alone in getting the economic situation wrong. Many American politicians, especially those who think of themselves as populists, have failed to understand an important change. Only recently have the savers rebelled against subsidizing the spenders. The populists, so called, may be right in thinking that Americans want cheap money to buy houses and cars. But they overlook that the same Americans want a fair return on their savings. There's a clear conflict between the two objectives. Americans want to borrow cheap, but they want to lend dear, and as Ben Weberman points out (p. 163), the populist pols will get a shock if they try to satisfy borrowers at the expense of lenders. As Ben puts it, money markets now have veto power over economic policy. The money markets? Yes, the money markets, which are no longer a bunch of bankers and Wall Streeters but everyone who has a pension or a savings account.


Editor



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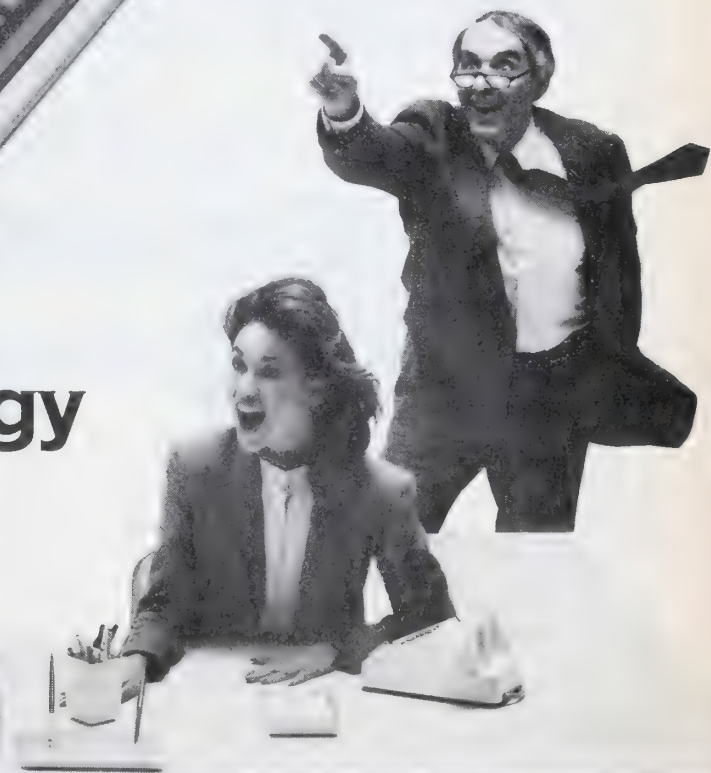
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Gamesmanship

The U.S. Olympic Committee and its agents are picking up some substantial front money for next summer's games in Los Angeles. In mid-June the committee distributed about 7 million ticket applications, a few by mail, the rest through agents like Sears, Roebuck, Manufacturers Hanover and First Interstate Bank of California. Fans were asked to mail back checks or put the tickets (which run to \$200 each for opening and closing ceremonies



Opening the 1932 Los Angeles Games
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and \$95 for top events) on their credit cards. The gimmick? When an event is oversubscribed—already the case for the hottest events like track and field, swimming, basketball and (surprisingly) fencing—the names will be put in a hat and drawn at random in a lottery that started in mid-August. Meanwhile, all those checks and charges are in the bank, busily earning thousands in the "float" for the committee and its distribution agents.

The price of protection

While Congress weighs legislation to limit foreign car imports to the U.S., a Japanese-funded study by Wharton Econometric Forecasting Associates in Philadelphia says such a law would only make matters worse. The study, funded by the Japanese Automobile Manufacturers Association, says the voluntary Japanese limits (which they have scrupulously observed) have pushed car prices up by \$1,000 over the last two years. Authors Colin Loxley and George Schink conclude

"local content" (i.e., made in America) laws would add as much as \$800 to average U.S. car prices by 1987 and cost U.S. consumers \$18 billion extra by 1990. By 1991, they add, each new auto sector job in the U.S. would come at the expense of 7.3 jobs lost in areas such as import auto dealers and port and transportation facilities. The U.S. auto industry's troubles are caused by the recession, higher interest rates and car prices and increased gas prices, not imports, they say, and the recovery has brought domestic auto sales up 48% in June and 13% for the first six months of 1983. The economists warn a U.S.-Japan trade dispute could trigger a chain of retaliation from other developed countries, causing drops in worldwide trade volume and gross domestic products in the West. Worse, it could cost 4 million jobs in the developed countries, they say.

Computer logic

Personal computers are becoming so important that at least one company is offering its employees free training in their use. This fall, National Education Corp., a \$155 million (sales) vocational training and educational publisher in Newport Beach, Calif., plans to offer its 4,300 employees a home study course in personal computers. Says H. David Bright, the company's president: "Computer literacy is no longer an option reserved for enthusiasts or programmers." NEC's workers will get a free Timex Sinclair 1500 computer (perhaps \$90 on the open market), along with training in BASIC computer language and skills ranging from balancing a checkbook to word processing.

The state tax bite

Uncle Sam may have reduced the tax bite on paychecks by an additional 10% this summer, but levies on consumer goods in several states are going to sop up much of that extra take-home pay. According to the Commerce Clearing House, a Chicago-based tax watchdog, since July of last year sales taxes have gone up 1% or more in 9 states and less than 1% in another 4. (Washington, D.C. and 18 states impose sales taxes of 5% or more, says the CCH, with Connecticut's 7.5% rate at the top and Oklahoma's 2% rate the lowest.) Gasoline taxes have gone up in 22 states and

Washington, D.C. since last summer, and only Florida has lowered them, says the CCH. Montana logged the biggest increase (6 cents a gallon), with Maine and North Dakota next (5 cents). Smokers are also paying more to the states. Ten states have raised levies on cigarettes. New York and North Dakota lead the group, each with a 6-cent-per-pack increase. Only Oregon decreased its tax on cigarettes but two bills pending there seek to boost it again.

Son of organization man

The "organization man," who became a household word after William H. (Holly) Whyte enshrined him in his 1956 book of that name, is due for a resurrection. With Whyte's support, Harper & Row plans a late-1984 publication of *The Organization Man Revisited*, a reprise of the original executives and families who were the heroes of Whyte's pop sociology classic. Principal author is Paul Leinberger, an organizational psychologist (and son of one of Whyte's originals) who is currently an executive with Levi Strauss. Another San Francisco industrial psychologist, William Livingston, will direct the research.

The call of the open road

Fast driving may be as American as the motel, but where are the speeders most prevalent? According to monitoring at the 1,800 locations overseen by the Federal Highway Administration, in most states from 30% to 50% of drivers regularly violate the 55-mph federal limit. In Massachusetts and Nevada, however, more than half cruise at speeds past the limit. Champions for compliance were Alaska (where only 17% were over the line) and West Virginia (with an 18.1% rate of scofflaws). Other states that scored high on the 55-mph compliance meter were South Carolina (28.4% offenders), Arkansas (30%) and Georgia (30.2%).

The ultimate free lunch

Every business day, for 52 weeks of the year, the partners in a Chicago law firm lunched ritually at the Cafe Angelo. Every day they discussed business. So, logically, the firm decided to make the daily routine a tax deduction. No good, said the Tax Court. To be deductible, the ruling implies, such meals must be eaten under un-

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Trends

usual circumstances, ordinary or necessary as they might be. If gatherings like those at the Cafe Angelo were allowed as deductions, the court said, "only the unimaginative would dine at their own expense."

Our neighbor's eagles

The bald eagle, choice of the Founding Fathers as the official emblem of the U.S.A., is now being imported to rebuild the country's depleted flock. Four fledglings have been flown in from Nova Scotia, Canada, to artificial nests (or "hack boxes," a falconry



The bald eagle

Emblems know no borders.

term) in New Jersey. Previously the birds had been brought only from Alaska, where they are not on the endangered list. In the Lower 48 states (where they are on the list) the U.S. now has about 5,000 bald eagles, including 1,200 to 1,300 breeding pairs.

What's in a name?

Finding—and protecting—a corporate name is no simple matter. There are over a million new names and products registered in North America each year and about 250 million company names on file, says Naseem Javed, president of ABC Dial Inc., a Toronto-based consultant. "Over 80% of the existing computer names are simply combinations and permutations of other names," he reports. Examples: Infosci, Infofax, Info-tech, Infotek, Infocom. High-tech companies are not alone. Trademark attorney Frank Campbell of Boston's Thomson & Thomson cites the case of the City Savings Bank of Bridgeport, Conn. In

January 1982 it became BancOne of Connecticut, but by September it had again changed its name, to The Bank Mart, because Banc One Corp. of Columbus, Ohio sued. How to avoid the problem? Says Javed, "Develop and investigate a list of names you'd like to use and find a profile of what other companies are using." The cost of a name search: anywhere from \$300 to \$15,000.

Conspicuous consumption

The last word in ice cream—at least the last word in the price of ice cream—has just been served up by Godiva Chocolatier, Campbell Soup's fancy candy subsidiary. For \$3.75 a pint, ice cream aficionados can buy Chocolate Grand Marnier, Chocolate Raspberry Cordial or four other "luxurious" Godiva flavors from department stores and gourmet shops in New York City and Washington, D.C. and, eventually, across the country. "Consumers asked for it," explains Sandra Stein, Godiva's ice cream marketing director, "and it fit in for us." For the homeward-bound, Godiva throws in a styrofoam container that keeps a pint cold for six hours.

The judges' lament

The 200 or so senior (i.e., retired) federal judges who sit in on the bench from time to time find themselves in a weird bind. Federal judges are named for life, but when they serve after retiring, so Congress decided when it last revised the law, their lifetime pensions become salaries—on which they must pay Social Security taxes of roughly \$2,500 a year. Justice Spencer Williams, a still active federal judge in San Francisco, is one of those exercised about this anomaly. He estimates that retired judges carry 10% of the federal caseload and that replacing them would take 40 to 50 new judges, at a cost to taxpayers of \$12 million a year. As president of the Federal Judges Association, a 310-member group headquartered in Chicago, he is agitating for congressional revision. Williams maintains that taxing the pensions is also unconstitutional, but he prefers legislative action rather than a lawsuit (which he says the judges are unwilling to initiate now).

What spurs managers?

Accused of enslaving executives to the quick buck and the quarterly gain, corporations have switched to long-term incentive plans—with little or

no results, according to a McKinsey & Co. study. Almost 40% of the 500 largest U.S. companies have added long-term bonuses in cash or stock for meeting four- to five-year earnings goals, says McKinsey, which studied 90 of them. Results: From 1978 to 1982 companies with long-term incentives averaged a return to stockholders, from stock appreciations and dividends, of about 4% a year. Those without such spurs averaged a 5% return. The McKinsey experts blame use of the wrong measurements of corporate success and failure to set proper targets. More than 70% used earnings per share to measure performance. Business and academic findings, the study argues, show little correlation between share earnings and stock appreciation. It also found that 20% of the executives queried had no idea how the achievement goals had been set. Instead of long-range strategic goals, the survey found, in many cases targets were arrived at by whim or arbitrary judgments.

Making the papers

What do you do when your company needs more attention? Get into the newspapers, reasons Chairman Robert Gintel of the Gintel Fund, Inc., a no-load mutual fund based in Greenwich, Conn. The company announced last month that, until Dec. 31, it would lower its required minimum initial investment from \$100,000 to \$25,000 in order to build its list of shareholders to 1,000 (from 750), the minimum required by the NASD for listing. "We believe our shareholders would like to see the price of the fund shares carried in the daily newspaper," explains Gintel.

Computer relations

Computers may be wizard machines, but they aren't too good at customer relations. A would-be subscriber to one personal computer magazine, for example, recently answered a plea (via computer-written postcard) to sign up. Back came a bill (computer-composed); back went his check (handwritten). Before his first copy arrived, the eager reader-to-be was shocked by a dun (computer-written) from "one of the largest collection agencies in the U.S." muttering about attorneys and "collection procedures." After an outraged protest (by voice telephone), the subscriber got an apology (computer-written) blaming the whole mixup on—what else?—computer error.



'INSURANCE? EVERYTHING'S COVERED—TRUCKS, BUILDINGS, EQUIPMENT. WHAT'S LEFT?"

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"ASK ME."

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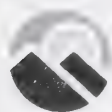
For example, more major companies have their corporate headquarters there than in any other region. The sophisticated computer field and the bustling high-tech and service industry sectors are centered in the Northeast. The area is also home to America's most prestigious educational institutions. And the historical, cultural, and recreational assets that the Northeast offers are second to none. The list, in fact, goes on and on.

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of the region. With 50 offices (and even more on the drawing board), a proprietary ATM network, and more than 200 point-of-sale locations, we are uniquely positioned. Our assets of over \$3 billion and net worth of \$150 million give us the resources needed to compete in the years ahead.

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Follow-Through

Attenzione, conglomerati!

In 1944 Jeno Paulucci borrowed \$2,500 from a friend to launch Chun King. When he sold it to R.J. Reynolds in 1966 for \$63 million, it was the largest Chinese food company in the U.S. Paulucci wasn't ready to retire. He went into overseas food equipment, Alaskan salmon and Jeno's frozen pizzas (FORBES, Nov. 15, 1975). He



Jeno Paulucci (in a TV commercial)
Ventures for a self-made man.

also launched a \$10 million venture capital firm that would finance other entrepreneurs just as his friend had backed him. "Banks," he told FORBES, "don't want the bother of dealing with very small businesses."

That admirable goal fell flat. "We got it off the ground temporarily," says Paulucci, 65. "Then we discontinued it because we were getting so many impossible requests." Paulucci now is interested only in sole ownership or joint ventures. Lately he has been busy with a 2,000-acre planned community called Heathrow, near Orlando, Fla. Ground was broken last month for the luxury home and office complex, which Paulucci expects will take between 10 and 20 years to complete at a cost of well over \$500 million. He sold *Attenzione*, the Italian-American magazine he started in 1978, in December 1981. But he is reportedly still the largest private shareholder of Italcable S.p.A., the Italian telecommunications company. (The government owns 50%.) He is also negotiating to buy 49% of Italcable's U.S. subsidiary, a voice and

data transmission concern serving 113 countries. "We will be very active trying to get acquisitions that will add to the growth of the monopoly in telecommunications in Italy," he says.

Nor has Paulucci given up his activities at Jeno's, which he launched in 1967 and gave to his three children. Within five years he hopes the \$200 million-plus company will reach \$1 billion in sales. To help accomplish this, Paulucci has moved the firm from Duluth, where it all began, to new headquarters in Casselberry, Fla. and he has hired a "team of professionals" to assist his son Michael, who is chairman.

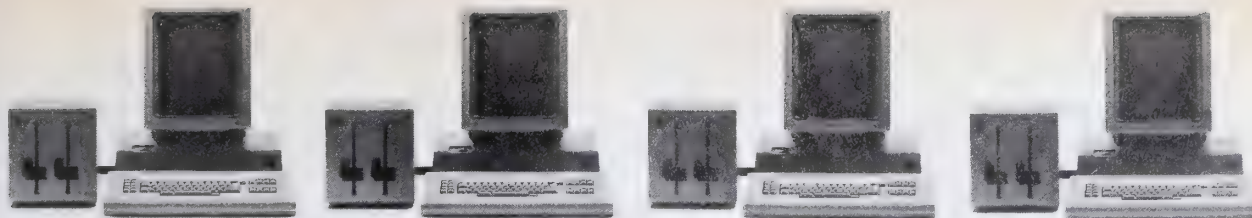
Paulucci, whose net worth is probably over \$350 million, is a long way from the street-corner sales that started him on his way to riches, but he confides, "I am a little jealous of the conglomerates." To compete with them, Paulucci says he intends to go into joint ventures with some Italian and Danish food concerns and market their products in the U.S. He wants to mimic Stouffer's success with its Lean Cuisine line. "Americans are becoming much more venturesome in their eating habits," Paulucci notes, "so there are foods throughout the world that they will now eat."

More acquisitions are also in store. "Now we're getting people with M.B.A.s and doing what the conglomerates do," he says.

A tale of woe

For 15 years, ever since Consumers Power Co. decided to build a nuclear plant in Midland, Mich., the company has had nothing but trouble. The 1,300-megawatt facility, started in 1970, was to be completed by 1975 at a cost of \$349 million. Then came the now-routine no-nuke suits by such groups as the Saginaw Intervenor and red-tape delays by the Environmental Protection Agency and Washington's nuclear regulators. By 1977 the cost was up to \$1.7 billion, and the completion date had been pushed to 1982 (FORBES, Mar. 1, 1977). Dow Chemical, one of the original contract customers, was fast losing patience.

Things have only worsened since. Dow modified its contract with Consumers in 1978, the same year the utility discovered that the soil at the plant site had not been compacted



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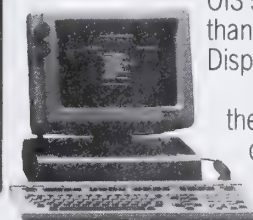
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Follow-Through

properly before construction began. Early last year Consumers was forced to begin work repairing the underpinnings, and one building had already cracked. This April the company announced yet another schedule change: The plant (now 83% completed) would not be finished until August 1985 and would cost \$4.43 billion.

That did it. Last month Dow Chemical said it no longer wants 20% of the Consumers plant's steam, and is asking the courts to void the 1978 contract. It has also filed a \$60 million damage suit. Consumers says that, if the contract stands, Dow could be liable for as much as \$440 million in costs. Standard & Poor's, meanwhile, lowered Consumers' credit rating. The company says it may ask the state Public Service Commission to put all the costs of the plant into its rate base, something the commission in other cases has refused to do.

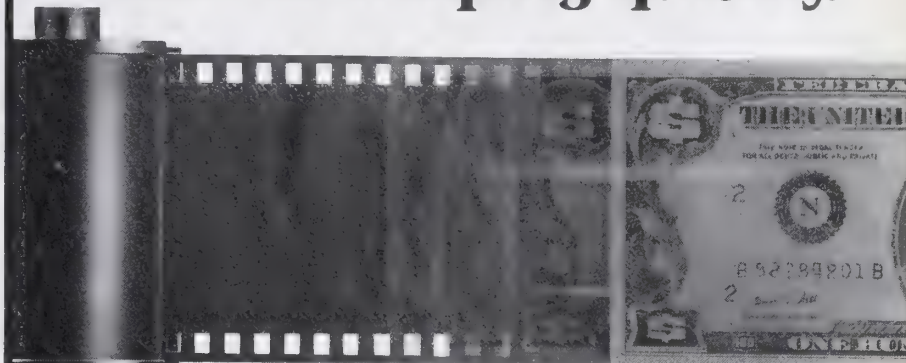
Not the least of Consumers' many critics is the Michigan attorney general's office, which sued unsuccessfully three years ago to stop the plant's financing. Hugh B. Anderson, head of the attorney general's special litigation unit, charges that the cost of generating electricity from the plant will be significantly higher than the company's present average rates.

One thing is certain: There is no joy in Midland, Mich.

A snub for the club

The nation's lawyers have flip-flopped once more on the issue of who should belong to what private club. Early last year the American Bar Association recommended that Congress declare any club a "public accommodation" if it derived "substantial" income from members who were reimbursed by employers or took tax deductions. "Substantial" was not spelled out, but 20% to 50% was mentioned. Later in the year the ABA, which represents more than half of U.S. lawyers, took the unprecedented action of rescinding that resolution. Now it's back. Meeting in Atlanta this month, the ABA's House of Delegates voted 183-to-152 to restore its original recommendation. This time the anti-club forces had gained momentum. Last year the resolution had only 1 sponsor. This time it had 12: 5 state bars, 4 city and county groups and 3 ABA sections—those on individual rights and litigation, and the young lawyers division.

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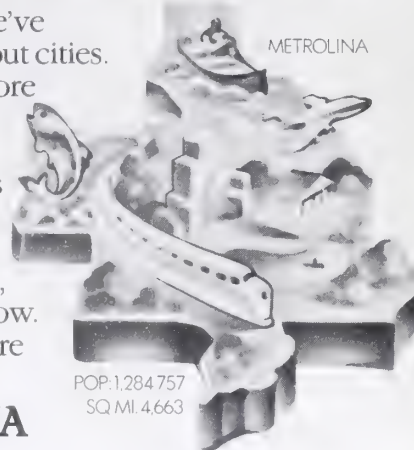
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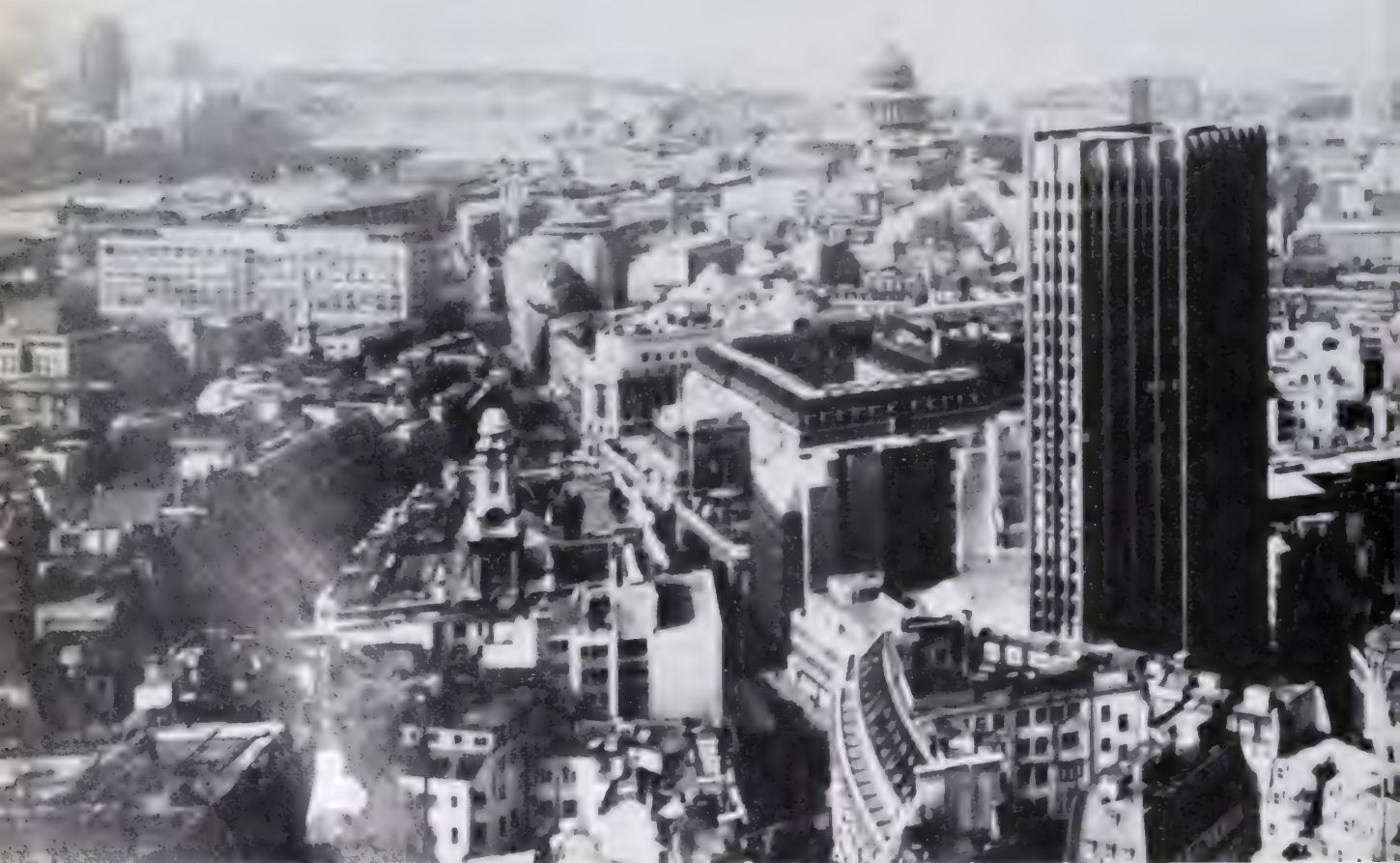
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Gossip-hungry?

SIR: Both Mr. Reagan and Mr. Shakespeare aptly described Debategate (*Fact and Comment*, Aug. 1) as "much ado about nothing."

Like an old July 4th firecracker, Debategate fizzled out as our interest changed from campaign knowledge to carnal knowledge in the Washington circles.

Do you get the idea that America's gossips are getting a little hungry?

—Scott Fletcher
Abilene, Tex.

Double treat

SIR: That interview (*Fact and Comment*, Aug. 1) was a double treat. First, to have the pleasure of such an amiable, wide-ranging discussion with two such well-informed people as you and Steve; and then to see the exchange elegantly encapsulated in a two-page spread.

Thanks for helping to dispel the fogbanks of confusion and misunderstanding that still obscure the truth about the current situation in Central America, the threat it poses to our national interest, and what we are doing about it.

—Ronald Reagan
The White House
Washington, D.C.

Lawyers' liability

SIR: Lawyers are not "standing resolutely in the way" of arbitration ("Flies in the ointment," June 20). More commercial matters are being arbitrated every year. Millions of business contracts contain arbitration clauses.

Smart managers know how to resolve their own disputes. Don't blame the lawyers if some clients don't have the guts to assert control.

—Robert Coulson
President,
American Arbitration Association
New York, N.Y.

Not so costly

SIR: FORBES contends that "unisex" legislation would be expensive to the insurance industry, states and cities and women (*Fact and Comment II*, June 20). Actually, language is being considered that would remove all costs to

industry, would not require "topping up" payments, thereby negating any cost impact to plans of states and cities, and would cost men and women no additional amounts overall.

Rather than condemn the legislation as structured, you might instead embrace the continued discussion of the Fair Insurance Practices Act and support the bill's "good intentions."

—Bob Packwood (R-Ore.)
U.S. Senate,
Washington, D.C.

\$-making technique

SIR: You neglected one significant fact in your discovery of another "loop-hole" ("The 6.9% solution," Aug. 1). If you are "short" a stock, you must pay the dividend to the lender of the security, thereby offsetting the dividend income.

—Maurice G. Stuffmann
Beverly Hills, Calif.

But the dividend received is taxed at only 6.9%; the dividend paid on the short sale is deductible from ordinary income, which is taxed at 46%. Thus money is made through the technique described in the article, which is why a growing number of companies are employing it.—ED.

Pressing problem

SIR: Your comments on the hazardous waste disposal issue (*Fact and Comment*, Aug. 1) are right on the mark. I am very fearful that as Mr. Ruckelshaus begins to return some degree of normalcy to EPA, our active concern about this issue will fade.

Prevention is indeed our most pressing problem. Also, you are correct that "the cost for solutions will be nothing like the cost of not coming up with them." I have proposed legislation that is designed to encourage a relatively inexpensive private sector solution. It would provide a 2-cent-per-pound tax credit to the waste generator if the waste is recycled, not dumped.

—Don Sundquist (R-Tenn.)
House of Representatives
Washington, D.C.

Some victory

SIR: You describe union organizer Ray Rogers (*Faces Behind the Figures*, July

18) as "Fresh from his victory at J.P. Stevens (its workers were organized in 1980). . . ." Rogers did not unionize Stevens. After 15 years and \$15 million spent, the Amalgamated Clothing & Textile Workers ended up with about 5% of the then J.P. Stevens work force.

Since then, because of layoffs and plant closings and failure of the union to win National Labor Relations Board elections, J.P. Stevens is even less unionized.

Rogers caused a lot of publicity and some concern at Stevens, but the union ended up with few additional members and a lot less money to do future organizing.

—Herbert R. Northrup
Professor of Industry,
The Wharton School, Univ. of Penn.
Philadelphia, Penna.

According to Stevens, 10% of its work force was unionized in 1980, and the percentage remains unchanged. Still, Reader Northrup's point is well taken: Rogers' organizing victory at Stevens was certainly a qualified one.—ED.



Union organizer Rogers
Pyrrhic victory?

Fat Bride

SIR: You praised the girth of Ziff-Davis' new PC magazine (*Trends*, July 4), commenting that its 642 pages outweighed by 22 pages the previous record set by *Vogue* in September 1981. *Bride's* magazine, published by Condé Nast, reached the alltime national record size of 678 pages in February/March 1983. Marriage is more popular than ever.

—Barbara Tober
Editor-in-Chief,
Bride's
New York, N.Y.

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

BLUE CHIPS ARE NEVER FOREVER ROSY

and never have been. Name one that never paled. Blue Machinery, from International Harvester to The Great
Chips that turned stone-cold dead in the marketplace run Atlantic & Pacific Tea Co.
the gamut from the Pennsylvania Railroad to United Shoe Blue Chips are for watching.

THE RESUMPTION OF INFLATION

continues not to be a worry. And, for a foreseeably long time, will continue not to be. Continuing the momentum of economic recovery continues to be our prime consideration. Fortunately, the President knows it even if some of his "economic experts" don't.

IN A WAY, IT'S TOO BAD DEBATEGATE DIED

Suppose the Democrats had successfully created the illusion that Jimmeh Carter lost the election because the Republican Camp had been clued in as to what Jimmeh was thinking about saying.

On the basis that he wuz robbed, our Demos, in fairness, would have to put the Carter-Mondale team on the ticket again. A dream ticket so to speak.

And what a dream that would be—for the GOP.

THE ULTIMATE FRAUD PERPETRATED ON MINORITIES

is to give in to their demands—vehemently supported by misguided supporters—for two things: blanket issuance of high school diplomas without regard to academic qualification, and bilingual school instruction.

Many jobs—including, these days, military enlistments—give strong preference to those with high school diplomas. So an alarming number of those rightfully concerned with ending discrimination insist that a high school diploma be issued to anyone who stays in school until a certain age.

Indiscriminately issued diplomas to lessen discrimination? What a travesty—rather, what a tragedy to let young recipients think that some printed words can substitute for the reality of education. The fall guys are those who fall for this fallacy. The wronged are those for whom this phony approach is presented as helpful.

So, too, in the case of bilingual education.

To get ahead, to have a place in the U.S., fluency in English is a necessity. Pandering to misguided minority political pressure being exerted "on behalf" of youngsters from Spanish-speaking families is to put these children behind a lifetime eight ball.

Special additional language instruction? Sure. Anything and everything that will help those disadvantaged in English by homes where it isn't spoken is not only good but essential.

To make scraps of paper of high school diplomas, to let other thousands and thousands of young Americans leave their now-native-tongue English unlearned, unmastered, is to perpetuate untenable discrimination.

ON TV, OFTEN THE ONLY THINGS THAT EXCEL

other than newscasts, special events and sports are occasional commercials that stand out from the ho-humdrum daily fare. Goodyear's blimp looming over the shoulders of the newlywed motorists is one example, and another is that great American Express credit-card pitch featuring an upper-crusty Englishman (portrayed by Monty Python's John Cleese). Sitting in his club, he snobbishly explains to the American audience "how life works. You're born, you grow up, you go to school, you get a decent job, and then you apply for the



American Express Card."

Our aristocrat goes on to say that applications "are to be found in posh shops, ritzy restaurants, hoity-toity hotels—they're everywhere. So do apply." At which point butler Dobbs comes onto the television screen and our gentleman observes: "Dobbs has, and they've accepted him. Hmmmm!" The spot winds up with the butler respectfully suggesting, "Perhaps *you* should try again, sir."

Good-natured good humor for sure sells.

LANDING THE ORDER IS STILL THE NAME OF THE GAME

A while back we lost out on a corporate advertising campaign that we'd taken for granted would continue in FORBES. It wasn't because they were mad at us—though it's not as unusual as it should be when a corporation cancels its advertising because the head knocker is upset at an article knocking his.

We had a strong case to make for getting FORBES back on their advertising schedule, and over a two-year span we made that case in every way possible, on every possible

occasion. Then came these happy words: "We are coming back to FORBES, which proves either the wisdom of the parable about the prodigal son or the effectiveness of the Chinese water torture."

The only thing that makes a salesman happier than landing an order in the first place is getting back one he had lost.

Nothing more pernicious can happen to a selling force than a period of not having to.

RESTAURANTS—GO, ~~LOUNGE~~, STOP

● **Café Seiyoken**—18 West 18th St. (Tel: 620-9010). This downtown-style old factory has been Art Deco-ed into a Japanesey brasserie, and it really works. In most respects. Cheerful actor-and-art hopefuls deliver a variety of quite different dishes sooner, not later. There are multiple *unsoy*-sushi dishes—including such original and occasionally appalling bombs as whole fried almond-studded avocados. The customers are alive and aware. A happy experience.

● **Quo Vadis**—26 East 63rd St. (Tel: 838-0590). A star is reborn. This former Classic withered and died when its founding fathers sold out nearly two years ago. Now Gino Robusti and Bruno Caravaggi have resurrected Quo Vadis, and its splendid chef, pastry chef and manager have interests in the business. It is better and even more beautiful than ever.

● **Uzies**—1442 Third Ave. (Tel: 744-8020). The bar's alive with faintly frayed With-Its who are certainly not there for the food.

● **Le Train Bleu**—1000 Third Ave. (Tel: 705-2100). This simulated railway dining car in Bloomingdale's is on a smoother track than when we last were aboard three years ago. The crisp mustard shrimp is as good as it sounds. So, too, the lemon chicken in plum sauce and the veal scallops in pesto sauce. If you're in this multi-movie-

house neighborhood, there are a couple of dozen places to lunch that are worse and cost more.

● **The Four Seasons Restaurant**—99 East 52nd St. (Tel: 754-9494). The food is splendid, the setting is splendid and the service is attentively superb. What more could you ask of a top restaurant? Nothing. Four Seasons' Pool Room and Bar Room (also known as the Grill) are the masterpieces of Tom Margittai and Paul Kovi.

● **La Gauloise**—502 Sixth Ave. (Tel: 691-1363)—is heralded by some discerning critics as New York's nearest thing to a quality French bistro. While it has the atmosphere and attentive service, many of the dishes continue to elude two-star status. Little things, like unwarmed rolls, processed orange juice in screwdrivers and a sweet sauce on saucissons chauds, don't help.

● **Windows on the World**—One World Trade Center, 107th floor (Tel: 938-1111). The nearest most of us will ever get to a spacecraft-launch experience is the 107-story elevator Soar to this spectacular restaurant. The setting and view are even more breathtaking than the ride up. To top it off, both food and service are improved these days. If you haven't been at least once, you haven't seen New York City. And, just a visit to the bar Hors d'Oeuvrerie, a separate part of the restaurant, is exciting—and inexpensive.

TRIGGERED: ONE REMINDER, ONE RECOLLECTION



Football game, Miss., 1947

Intense young faces reminds us anew of what overwhelming importance high school football is to youngsters, parents and communities everywhere in the U.S. (except for our big cities). With a glance at this picture one can comprehend how enormously consequential this sport is in so many lives. It was that way years before this was taken in 1947, as it is today, and a thousand adjectives couldn't depict that fact half as graphically as this photo.

The GI shown on furlough in 1944 releases a flood of

The two pictures shown here are from the photo classic 1943-1950 Standard Oil (New Jersey) Photography Project, selections of which have just been published by the University of Texas Press (see review below).

A look at these in-

terest to those of us who spent several years in those baggy sunbats during WWII. Two catastrophic wars, involving principally the U.S., Korea (1950-1953) and Vietnam (1961-1975), have made that Hitler war seem very long ago. It now seems to have been a "simpler" war, fought against a sickeningly visible evil, battled to a clear resolution. Total victory, compared with Korea and its stalemate, with Vietnam and its defeat.

When we had our furloughs 40-plus years ago, we came home to proud families, communities all out in their eagerness to welcome us. This was a nation totally united, striving in every facet of its daily life to smash Hitler and the Nazis. It's all there in this picture.



Soldier on furlough, N.C., 1944

HE WHO HAS THE WHEEL

determines the direction.

JUST AS NO MODE IS ENDURING

so, too, no mood.

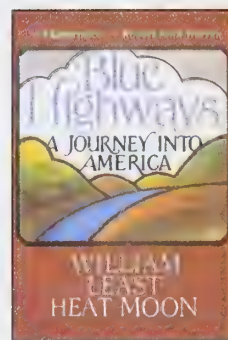
BOOKS

● **Roy Stryker: U.S.A., 1943-1950**—by Steven W. Plattner (University of Texas Press, \$19.95). Long before there was a public television channel, or any TV channels, for that matter, Exxon (nee Standard Oil New Jersey) was giving invaluable (albeit, indirect) support to the arts as an important means of improving its image. Here's a great example—a photography project headed by the not-yet-legendary Roy Stryker, depicting "U.S.A., 1943-1950." Herewith, one—and above, two—"extracts."



Excerpt: Stryker insisted that "industry, from top to bottom, consists of people whose efforts and skills are the basis of productivity. [The Standard Oil photographers] feel that people and not the machines they work with are what is important in our industrial civilization."

● **Blue Highways**—by William Least Heat Moon (Atlantic-Little, Brown, \$17.50)—is truly a delightful "journey into America," mostly on what's left of its earlier highways through hamlets with names as beguiling as the author's. Take the trip and relish countless such observations as these:



Excerpts: A Missourian gets used to Southerners thinking him a Yankee, a Northerner considering him a cracker, a Westerner sneering at his effete Easternness, and the Easterner taking him for a cowhand. . . . "Do you like football?" I asked Watts. "Don't know. I was so high up in that stadium, I never opened my eyes." . . . Because it lay in front of me, I headed for the Bluegrass region. I took an old road, a "pike," the Kentuckians say, since their first highways were toll roads with entrances barred by revolving poles called "turn pikes." . . . A rule of the blue road: Be careful going in search of adventure—it's ridiculously easy to find. . . . He paused for a slice of orange. "May I suggest how it was that Jimmy Carter rose from what some have called 'nowhere' to the Presidency?"

"You may."

"Because he showed us he came from the land. To an American, land is solidity, goodness, and hope. American history is about land."

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Not Told—Allowed

During his years of rising through the corporate ranks, John Opel was often frustrated by IBM's centralized management. "No matter what I had in my jurisdiction, I typically felt I was more competent to deal with it than anyone else. And that wasn't conceit, it was just simple laws of nature," says Opel. That experience left him with a desire for decentralized decision making. He now tries to force corporate policymaking down and out, retaining at headquarters only what is necessary for overall planning and control. "You have to have people free to act, or they become dependent," he says. "They don't have to be told; they have to be allowed."

—John F. Stacks, *Time*

Useful Disarray?

It is Reagan who tolerates the appearance of disarray among his staff. In his campaign, and since becoming President, he has shown that he knows how to get rid of underlings who offend him.

If the Reagan White House seems to talk in "multi-voices," it is probably because a thick-skinned and politically shrewd President sees some benefit in it.

—Dick Kirschten, "White House Report," *National Journal*

Who's Whoops'd?

A report by the Chicago consulting firm of Knight-Bonniwell, estimates that the Washington Public Power Supply System's \$2.25 billion default will cost the state 20,000 jobs, particularly in construction, high energy-use businesses and the pulp, paper and transportation industries. The consultants estimated the WPPSS penalty on future bonds sold by the state and other public agencies in the Pacific Northwest at two percentage points. The Washington supreme court's decision to let those 28 utilities and their ratepayers walk away from the WPPSS bonds will avoid boosts in electric bills, but if anyone in the Pacific Northwest has to issue municipal bonds in the future, its citizens could be a long time paying for the court's generosity.

Even if the customers of all the 88 utilities that are part of Whoops—

including the 28 defectors—were faced with rate increases to cover the existing debts, it would only amount to a 14% increase, or one-half cent a kilowatt hour, according to one analyst. And their rates still would be only 57% of the national average. Quite clearly, power consumers in the Pacific Northwest have made bondholders all over the country victims of the region's unreasonable expectations. But they are soon to be victims as well.

—*Wall Street Journal* editorial

Waiter Mothers

Woods has waiters who spread your napkin on your lap as if they were your mother. Ignore the nonsense and go for the food, which can be marvelous.

—*Restaurant Reporter*

Tennessee Tonic

"I got some bad ham meat one day," Miss Ginny said, "and took to vomitin'. All day, all night. Hangin' on the drop edge of yonder. I said to Thurmond, 'Thurmond, unless you want shut of me, call the doctor.'"

"I studied on it," Watts said.

"You never did. You got him right now. He come over and put three drops of iodeen in half a glass of well water. I drank it down and the vomitin' stopped with the last swallow. Would you think iodeen could do that? Calms me like the hand of the Lord."

"Knew the old medicines," Watts said. "Only drugstore he needed was a

good kitchen cabinet. None of them antee-beeotics that hit you worsen your ailment. Forgotten lore now, the old medicines, because they ain't profit in iodeen."

—*Blue Highways*,
by William Least Heat Moon

The fact is that most travelers don't give a damn for the sights. They care the most about their hotel, if they're comfortable there.

—the late Temple Fielding,
creator of *Fielding's Guide*,
New York Times

Novel Realism

Many writers have given up realism in the novel. That is like an engineer saying: "We've been using electricity for a hundred years. We're going to do something else from now on."

—Tom Wolfe,
U.S. News & World Report

Who?

Sometimes the throng of tourists through the Capitol corridors can become an impediment to progress. Sometimes, even, it can be an assault on one's ego.

The other day, I was walking from this chamber back to my office, and an excited group stopped me and someone said, "Say, I know who you are. Don't tell me. Let me guess. Let me remember. I'll get it in a minute."

I waited for several seconds and finally I said, "Howard Baker." And he said, "No, that's not it."

—Senator Howard H. Baker Jr.,
remarks to the Senate



"Just give him the order without trying to win his friendship."

DRAWING BY FRASCINO, ©1983 THE NEW YORKER MAGAZINE, INC.

**There's more to
our newest optical fiber
than meets the eye.**



In this picture, it's what you can't see that counts.

These hands are holding an optical fiber—an incredibly pure strand of glass that transmits both voice and data as pulses of light.

But as extraordinary as any optical fiber is, this one is even more so.

This is a new kind of optical fiber, with a core only 1/6th as thick as a human hair (or any conventional optical fiber).

You see, the thicker a fiber's core is, the more dispersed—or "fuzzy"—the light signal gets as it passes through.

In our new optical fiber (technically, a "single mode") the core is so fine that it virtually eliminates this "fuzziness."

This allows billions of pulses

**Information can be sent
faster, and in greater volume,
thanks to our
revolutionary new fiber.**

per second to be sent through the fiber over longer distances. A lot

more information can be transmitted in a given time.

So, a telephone line made of "single mode" fibers can carry more information than any telephone line could before.

Considering the continuing explosion of voice and data traffic, this new kind of optical fiber will be vitally important.

And that's something that's easy to see.

For more information about our fiber optics and our continuing commitment to advanced telecommunications, write ITT Electro-Optical Products Division, 7635 Plantation Road, Roanoke, Virginia 24019. Or call (703) 563-0371.

**The best ideas are the
ideas that help people.**

ITT

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**Chemical on
Energy and Minerals:**

If there's one thing certain in the energy business today, it's that tomorrow will bring change. The forces that are reshaping the world's most vital business have long been shaping our thinking at Chemical. That's why we established a separate division of our bank, dedicated to energy and minerals projects.

Our 25 years of experience in the field have taught us that banking skills are only the beginning. Chemical adds technical strength, new product development and corporate research that result in the most creative



project financing in the industry. When Chemical is your bank, you have the kind of partnership that promises success.

This kind of commitment and concentration may be the trend of the future. But it's already a tradition at Chemical. It has made us a leading source of credit and non-credit services to many of the world's largest energy firms, the ones who demand the smartest money.

What Chemical has done yesterday, what we're doing today and what we're working toward for tomorrow are all part of the tradition of giving you the very best banking service.

CHEMICALBANK

In energy, the smart money is on Chemical.

CHEMICAL TAKES YOU BEYOND TRADITION.

Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief



STOP PRETENDING POLAND CAN PAY

Western governments recently agreed to resume talks with Poland over rescheduling that country's debts. The talks were suspended in December 1981 after the imposition of martial law. Commercial banks are already negotiating with the government on the same subject.

These discussions will be a waste of time.

Given political realities, there is no chance Poland can ever pay the interest, much less the principal, on those loans. Poland should be declared in default of the \$26 billion it owes the West, since the country has been in *de facto* default for more than two years.

Unlike troubled Mexico or Brazil or even Argentina, Poland can't implement the reforms necessary to get its economy going again. Economic growth requires certain freedoms that the Polish government dare not allow. Only through productive growth can a country regularly service debts of the magnitude of Poland's.

The bankers' willingness to participate in the rescheduling charade is understandable. They don't want to write off those loans because that would reduce reported profits. In fact, the Polish regime has skillfully played on the banks' writedown fears to win concessions.

The markets, though, are not fooled. Wall Street doesn't

take banks' profits at face value; their price/earnings ratios are about half that of the general stock market.

Why do governments go along with the game?

West Europeans don't want to offend further the Soviet Union, which is growling loudly over the upcoming deployment of Pershing II missiles. Washington still thinks the prospect of a default will make the Polish government behave better toward its people. Many officials also believe that a default would somehow bring the international banking system crashing down.

Those arguments don't hold much water. Each country has a central bank quite capable of shoring up any financial institution that might get into trouble from a default. Writeoffs could be stretched out over several years.

German and Swiss banks, Poland's biggest creditors, have been preparing for trouble since 1981. U.S. banks' exposure is relatively small, little more than \$1 billion.

Poland's quisling regime is no less repressive today than it was when martial law was originally declared. The recent cosmetic lifting of martial law has changed nothing.

As for the Soviets, they're more likely to respond to a show of resolve than they are to a stream of one-way concessions.

THE FEDERAL TRADE COMMISSION OUGHT

to have its knuckles rapped for trying to revive a discredited antitrust theory of the 1970s, known as "price-signaling."

Everyone knows price-fixing is verboten, but trustbusters at the Justice Department several years ago took that doctrine to an absurd extreme, arguing that announcing price increases was similar to directly setting them in smoke-filled rooms. "Disseminating" pricing information via the press, Justice declared with a straight face, was a way of letting competitors know what they should do, thereby maintaining uniform prices industrywide without breaking the law.

The silliness of prosecuting companies for writing press releases or holding press conferences on the subject of

prices ultimately killed this doctrine at Justice.

But the FTC is reviving it. Not long ago, the commission found Du Pont and Ethyl Corp. guilty of fixing prices of gasoline additives through "illegal signaling." Among the sins of these companies: issuing advance notices of price changes to customers, writing contract clauses that ruled out discounts and maintaining a system of "uniform-delivered pricing," which meant a customer paid a uniform price for delivered goods regardless of destination.

The commission—at least for now—decided against a staff judge's recommendation that would have made it a crime to issue press releases about prices.

The FTC action here is beyond satire.

Federal courts should strike it down forthwith.

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STRONG IS BETTER THAN WEAK

**The U.S. is
a strong
economic engine**

WE'RE HEARING A LOT ABOUT HOW the strong dollar is going to be a drag on the economic recovery. A dollar worth 8 francs or 2.7 DM has a negative effect on U.S. exports, but often overlooked in the discussion are some very positive aspects of the strong dollar. A stable but strong dollar allows the U.S. to become what it was in the 1960s: an economic engine that pulls other economies up from recession.

The strong dollar also encourages Americans to travel abroad and purchase foreign goods, thus stimulating foreign economies and building world trade. And the inflow of investment capital brings billions into the U.S. financial markets. Is it good to depend on foreigners for capital? No, but it's better than not to have it at all. It's also important to remember that the strong dollar isn't solely a consequence of high interest rates here. It is strong in good part because foreigners want to invest here, since they are worried about the spread of socialism at home and of Soviet expansionism. At a time when many Americans are beating their foreheads over relatively mild social and economic problems, it is easy to overlook that many foreigners still regard the U.S. as the solid bastion of freedom. So, the dollar would be relatively strong even if interest rates were way down.

**U.S. firms are
more competitive
and productive**

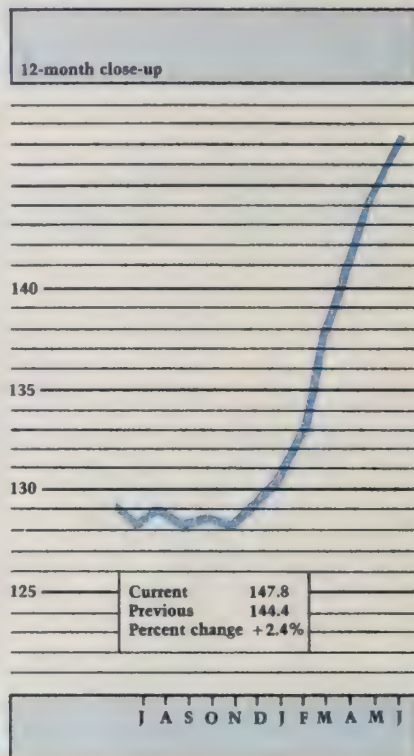
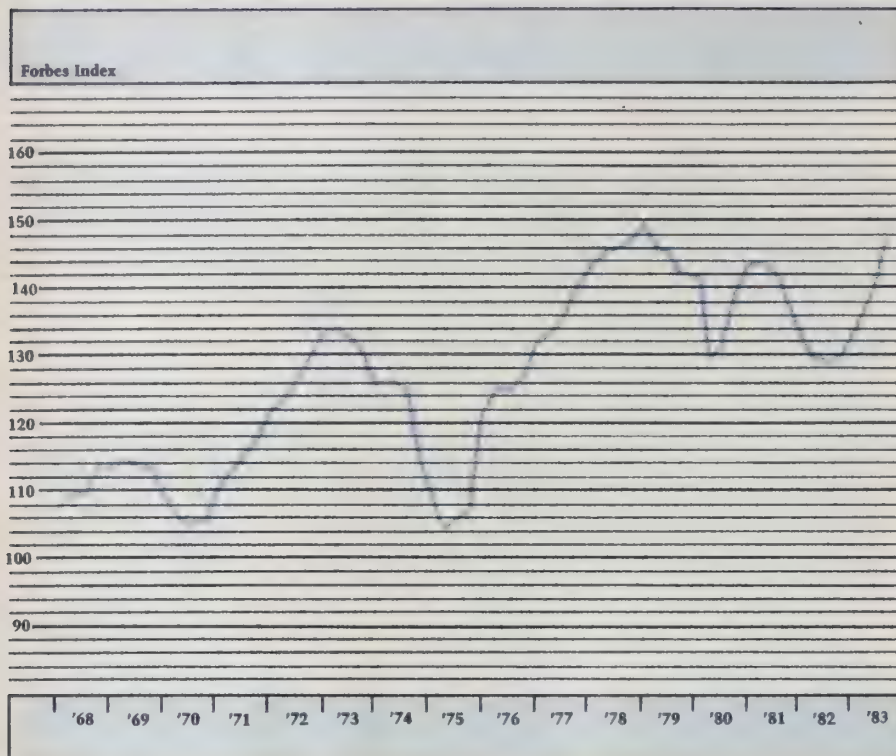
IN THE MEANTIME, THE STRONG DOLLAR IS HELPING HOLD down inflation in two ways. It cuts the dollar costs of the imports that are a major contributor to the U.S. standard of living. It also forces U.S. firms to become more competitive and productive both at home and abroad. If labor has been willing to settle for less inflationary contracts recently, foreign competition—enhanced by a strong dollar—deserves much of the credit. Thus, while the strong dollar acts in some ways as a brake on the U.S. recovery, in other ways it acts as an accelerator.

What about interest rates? Will they, as some people fear, choke the recovery? Not likely. There is still enough room in the financial markets for both public and private borrowers and at lower rates than the current. This year's expected 30% jump in corporate profits means cash flow will also be way up. That, combined with the surge in equity offerings, will sharply lessen private credit demands. In short, What's Ahead doesn't subscribe to the crowding-out theory. We believe the current rise in interest rates is simply an upspike in a basic downtrend.

**More Americans are
working than
ever before**

THE UPSPIKE IN RATES WILL DAMPEN SOME OF THE EXUBERANCE of the recovery but won't extinguish it. The unemployment rate is falling steadily. Now down to 9.5%, it will be 8% by mid-1984, halfway to the full employment target of 6%, which is still a few years away. Getting to an 8% rate will require 4 million new jobs, a number that can be met if growth in GNP averages 7% this year and next. The key points are these: The number of people out of work is lower than it has been in 13 months, and there are more Americans working than ever before. Regardless of the blip in interest rates and worry about a strong dollar, the recovery is proceeding nicely and with a minimum of inflationary pressures.

The Forbes Index



Breaking away. The Forbes Index has posted a 2.4% gain, one of the largest so far this year. This means business may be about to take leadership of the recovery away from consumers.

Manufacturers' new orders jumped 6.0% during the latest reporting period, following a far smaller 1.6% rise a month earlier. At the same time, inventories declined by

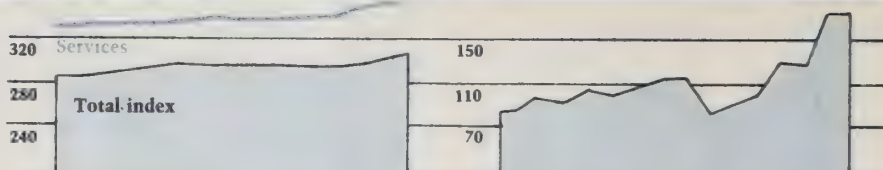
0.7%, indicating that industrial production will have to be stepped up still some more.

Businesses are already adding to their employment rolls. Since the year began, unemployment claims have fallen by a sizable 24.6%, with June showing the largest single decline, some 10.3%. The recovery, which got off to a surprisingly fast start, continues to gain strength.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

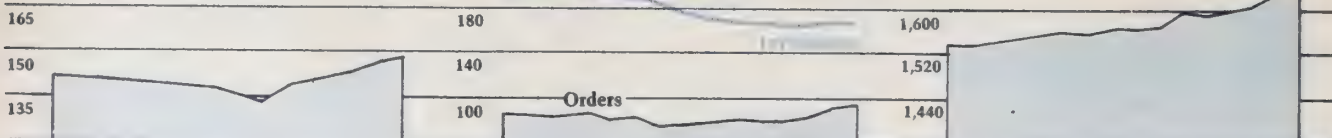
To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.



Total-index

Consumer price indexes (1967 = 100)
all urban consumers, unadjusted (Dept. of Labor)

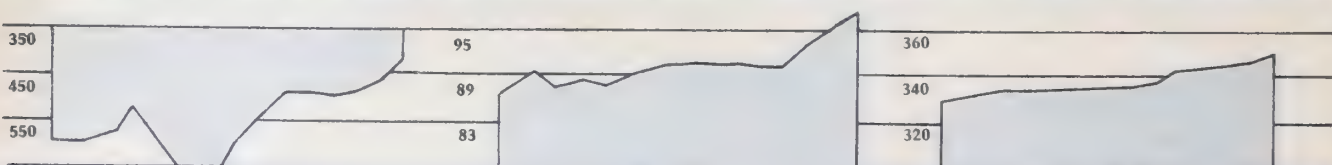
New housing starts (thousands)
privately owned, unadjusted (Dept. of Commerce)



Industrial production index (1967 = 100)
Seasonally adjusted (Federal Reserve)

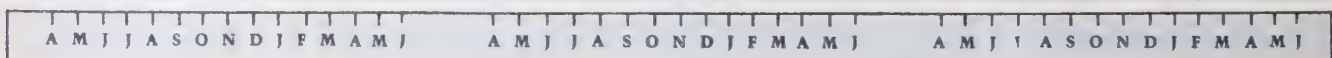
Manufacturers new orders and inventories
(\$billions) seasonally (Dept. of Commerce)

Personal income (\$billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)

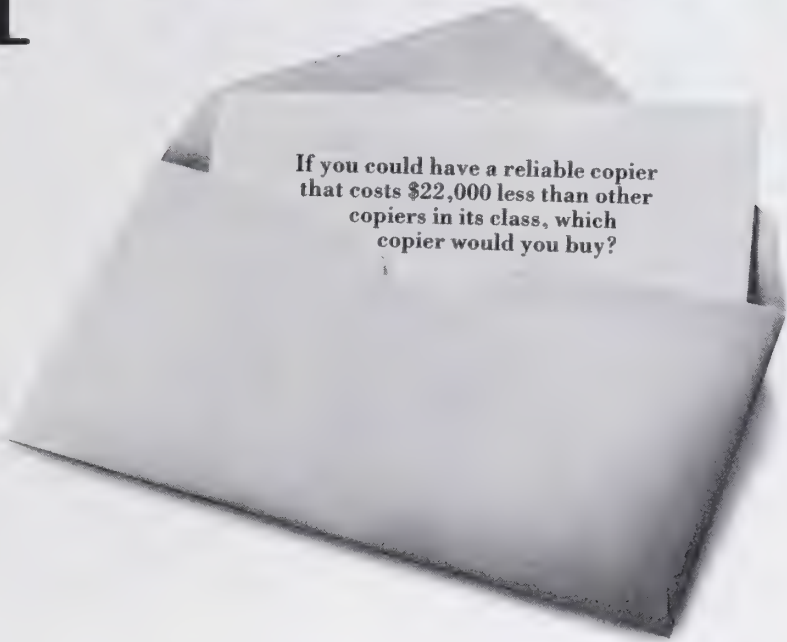


Retail store sales (\$billions)
seasonally adjusted (Dept. of Commerce)

Consumer installment credit (\$billions)
total, seasonally adjusted (Federal Reserve)



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copiers in its class, which
copier would you buy?

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IBM Series III Model 60 Copier/Duplicator 7

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*Comparison based on manufacturers' prices as of 5/26/83 for plain-paper copiers with reduction, automatic document feed, collator and a rated speed of 70 copies per minute.





While shooting a commercial with the 1980 America's Cup defenders, we saw for ourselves that winning takes skill, dedication, and teamwork. We like to think that describes us as well.



On land and sea,
when E.F. Hutton talks, people listen.



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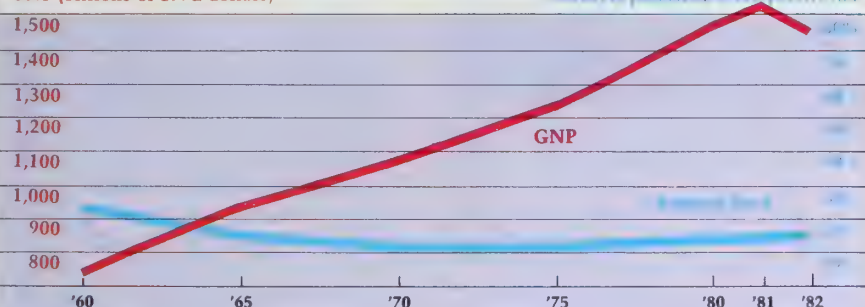
What do Washington's latest statistics on poverty really prove? That poverty is hard to define and analyze, let alone cure.

Poverty in America

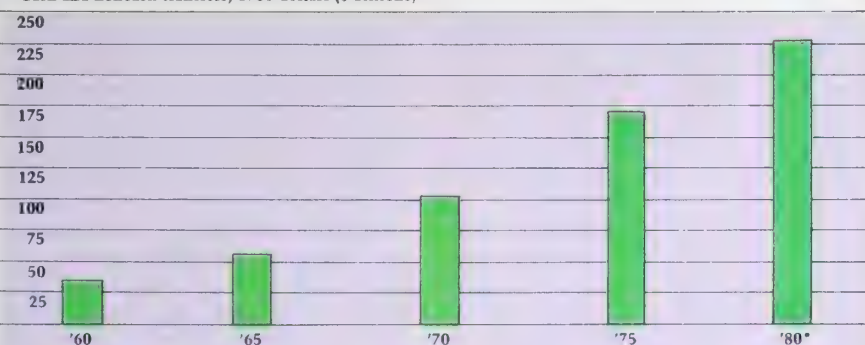
"Poor, not stupid"

Two decades ago it seemed the growing economy would provide the jobs to slash the number of Americans living in poverty. Then came the great War on Poverty. Despite the enormous increase in cash and noncash payments, the percentage labeled poor stubbornly refused to decline in the 1970s. Economist Walter Williams says: "The poor are poor, not stupid. If you give them incentives to be poor they will stay that way."

GNP (billions of 1972 dollars)



Cash and noncash transfers, 1980 dollars (\$ billions)



* Latest available figure

By Howard Banks
and Jayne A. Pearl

A GOOD SECTION of the American population and most of the media have been on a guilt trip ever since Aug. 2, when statistics from the Census Bureau showed that 34.4 million Americans, 15% of the population, are now considered to be below the poverty line, up from 14% in 1981. The implications seemed clear: Reagan's policies have helped the rich and hurt the poor. Far from questioning the statistics, the Administration responded immediately with a hunger task force. No one seemed willing to challenge the poverty figures. Certainly not the liberals who profess to believe that pouring money on the disadvantaged solves the problem; nor the conservatives, embarrassed at what they expect would be thought-bad taste if they challenged the figures.

All this and natural compassion makes judicious analysis of the poverty statistics difficult. And yet, since poverty is the kind of issue that decides elections and the fates of governments, honest analysis is essential to the survival of democracy.

A major problem is with the poverty statistics themselves. "They are probably the worst federal statistics ever developed," says Robert B. Carleson, special assistant to the President for policy development. The official poverty level was first set in 1961 when the Social Security Administration devised an economy food plan

with the Agriculture Department, set at the cost of a minimum adequate diet. On the assumption that a family spends one-third of its income on food, this figure was then multiplied by three. Since then it has been adjusted only to cover inflation, but using the standard Consumer Price Index, which is essentially middle-class based. The CPI overcounts things like mortgage interest rate changes, which do not affect the poor, and undercounts utilities, which are a major burden for those low-incomes.

The official poverty level is set at \$9,862 for a family of four and \$5,019 for a single person. This includes only cash income and cash transfer payments. Counted as cash are Social Security, workmen's compensation and unemployment compensation, plus the aid-to-dependent-children pro-

of the total population to 6.5%.

In theoretical terms, the poverty statistics are thought to be pretty good. They are collected through monthly Labor Force interviews for the Current Population Survey, where 61,500 households are interviewed. Every March a supplemental interview is included, some by phone, some in person. The 1,500 interviewers are said to be among the best-trained in America. Each household in the survey is interviewed for four months and, after an eight-month gap, for four more months.

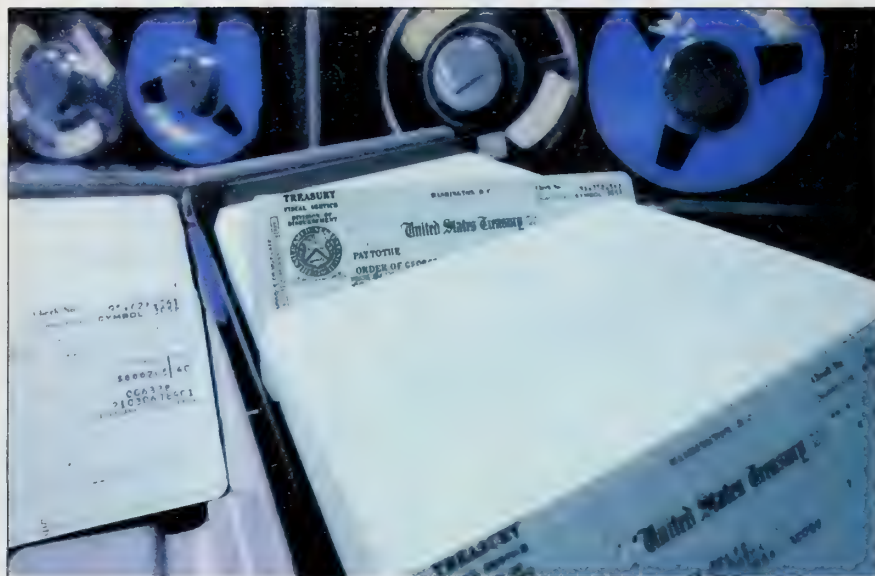
Of course, a cynic would ask: Are the respondents being totally frank about their other income? If your choice was to be scrupulously honest and lose your food stamps, what would you do if the chance of being found out was minimal? An elderly

taxi drivers are notoriously casual about reporting their earnings to the IRS. A good many of them presumably figure in the poverty figures.

What is poverty? You only have to drive down any main street, or into the depths of the countryside, to know that the official figure that one in every seven or so Americans is living in poverty does not reflect the physical reality. Nowhere can you find starving masses, endemic malnutrition. Of course there are poor people, living in substandard housing where there are rats and roaches, where the windows have been broken and not fixed. Where the mailboxes have been hammered open by well-fare-check thieves. Where the kids wear hand-me-down clothes that are sometimes not warm enough in winter. Where heating and air-conditioning are bad or nonexistent. Where a window fan is the height of luxury.

But they are not suffering in the way that the genuinely poverty-stricken do in the slums of Calcutta or Rio. Even in the worst block that one *FORBES* reporter could find in a black Washington, D.C. neighborhood (the cops made him report back that he had gotten out all right), nearly everybody had a television set, some color. Radios are everywhere, the kids are carrying portable stereos, cruelly dubbed Third World briefcases. Many families have cars, though most are early 1970s gas-guzzlers available cheap on the third-hand market. And telephones are standard, though that is changing as installation and monthly rentals rise.

Hunger is subjective, but malnutrition is a matter that can be assessed medically. "There's never been a real case made that there is any endemic malnutrition in this country," says George Graham, professor of human nutrition and pediatrics at Johns Hopkins University. And he includes all the work in the late 1960s that led to the explosion of the food programs intended to aid the poor, including those started by President Lyndon Johnson. People claim there is evidence of stunting in some populations, he says. But the blacks are, on average, taller for their age and the Hispanics and Orientals shorter, yet Orientals academically outperform all, including whites. The economist, Walter Williams, of George Mason University, expects the President's task force on hunger will find little remaining malnutrition in America. Either it will involve the elderly with no, or a neglectful, family. Or it will be seen to be self-imposed. "Unwise management," he



Government checks moving out of the computer

"Anyone knows that when you subsidize something you get more of it."

gram and veterans' pensions. However, in deciding who is above or below the poverty level, the statistics do not count the value of noncash transfers such as food stamps, Medicaid and the value of subsidized housing. Nor does it include the income value of assets, such as a house or the possibility of drawing on savings. In short, a lot of people are counted as poor who are not deprived people by any reasonable standards. To be sure, counting non-cash income presents difficulties. It is difficult to argue, say, that the market value of things like Medicaid should be included: This would mean that the sicker the poor are, the richer they are deemed to get. Nevertheless, a study in 1979 showed that including the market value of all the other aid handed over to the poor would reduce the then-poverty level of around 11%

lady was asked what she would do if her few hundred shares of AT&T went up and disqualified her for the subsidized housing she occupies. "I just won't tell them," she answered honestly.

There is also the matter of the underground economy, where those able to get some kind of part-time work forget to mention it. How about Simone, a graduate student at a Texas university with a teaching income of \$5,500 plus a secretarial income of \$3,000, which she did not report. "It bothers me that I don't report it," she says, "but I figured it would cost me \$400." An upstate New York builder tells of laying off two men on Wednesday. On Friday they registered for unemployment insurance. On Monday they went to work for another builder. Off the books, of course. Manhattan

says. "Parents who give their kids Coca-Cola and potato chips for breakfast." History provides the best lesson on how to deal with poverty in a rich and evolving society such as the U.S. Throwing government money at the problem is not what the lesson teaches. As Walter Williams points out, capitalism and the economic growth it stimulated raised the American working class to middle-class affluence. "A rapidly growing economy solves many social ills," he says. To the extent, then, that taxes to pay for transfer payments inhibit recovery, they may be hurting the very people for whose benefit the taxes are being levied.

In the 1950s no less than 30% of the population was believed to be below the poverty line. But that had declined by a third in the early 1960s when the serious counting began. Look at the chart showing the decline, and you will find that it began to level out at around 10% to 12% in the late 1960s. That refusal of the poverty proportion to decline, coincidentally, came after the big push to provide aid for the poor. There's room for cynicism here, but even more room for questioning those ultraexpensive antipoverty programs. There seems to be a floor level of around 10% below which official poverty refuses to decline.

The unpalatable conclusion is that the whole system of aid through payments and aid in kind is the key to people staying poor. No, that is not saying that people are cheating. Just that the poor are reacting to economic stimulus in the same way a commodity dealer does when told that the Florida orange harvest has been devastated by frost: each acts in his or her own best economic interest.

Williams says: "The poor are poor, not stupid. If you give them incentives to be poor they will stay that way. Entitlements subsidize poverty and anyone knows that when you subsidize something you get more of it and when you tax something you get less."

Throwing checks at a serious and fundamental social problem makes people believe they are doing something and has created two constituent groups anxious to keep the money flowing: those that receive, and those that earn their living doling it out.

Both the definitions and the statistics about poverty in America are highly suspect. But even worse are the political conclusions some people try to draw from them. At least as good a case can be made that the Reagan policies are good for the poor as that they hurt the poor. ■

These days there are lots more ships than cargoes to carry. So why the unlikely rush to build new tonnage?

All aboard, it's getting crowded



By Pamela Sherrid

ARE YOU MADE NERVOUS by all that speculation in hot new issues? Then put away the captain's hat, you are not cut out to be a shipping tycoon. A high-stakes game of "I dare you" in the bulk shipping industry is making even the most volatile stock market look like a squall in a bathtub.

These days many shipowners are more traders than sailors. No wonder. Ship prices rise and fall with freight rates, which often means more money can be made from a few well-timed purchases and sales than by plying the seas for decades. At the end of the industry's 1977 slump, a canny buyer could have acquired a 120,000-ton bulk carrier for less than \$5 million. Three years later, at the peak of the market, the same ship was worth over \$20 million.

Profits like that will pay for lots of private yachts and Manhattan condominiums, and they explain why ev-

eryone in the industry is intently sounding for a market bottom. Shipowners from Piraeus to Hong Kong have suffered for two years because of slow economic growth and a world fleet much too large for the cargoes of steel, coal and grain that need to be transported.

The last time the market turned, fortunes were made, but few saw it coming. "The recovery in early 1978 took everyone by surprise," says Paul Talbot Willcox of Eggar Forrester, a leading London ship broker. "This time everybody has a theory, and everybody is determined to get his timing right."

Such is the fear of missing the boat that one move early this year rocked the entire industry. While most owners were immobilized by gloom, the Onassis group snapped up four ships for \$20 million, all smallish "handy-size" bulk carriers, a category that was less troubled by overcapacity than larger bulkers. Several Greek owners made similar purchases,

which encouraged still more buying.

"Shipping works on a follow-the-leader mentality," explains another London broker. "If one astute individual acts, then everyone else follows, on the assumption that he knows something they don't." Between January and May, the price of five-year-old handy-size vessels moved up 50%, all without any real improvement in underlying charter rates.

As the secondhand market improved, meanwhile, new-built ships began to look like bargains. Desperate to save jobs, shipyards in Japan and South Korea had been offering vessels at below cost with generous financing. Then rumors began to circulate that Sanko, a major Japanese shipping line with severe financial troubles, was about to place a large order. At first, the Japanese confirmed orders for 20 ships, then 60 ships. By late spring Sanko had ordered a huge fleet of 111 ships, all handy-size bulkers, for a total bill of over \$1 billion.

"That deal is not something you'd find in the Western world," says one New York shipping man. Big trading companies such as Marubeni and Sumitomo are putting up the capital to charter the ships back to Sanko. The New York and London shipping communities see the scheme as Japan Inc.'s way to bail out both Sanko and the shipyards. "Why should the Japanese build cheap ships for foreigners if they can build them for themselves?" asks a British broker.

If the idea was to stimulate additional demand for Japanese yards, it certainly worked. While some competitors were horrified by the Sanko deal, others hurried to place their own orders before all the berths in Far East yards were spoken for. Among those jumping aboard: several big Scandinavian owners and the Khomeini dictatorship in Iran. As a result, new build prices have climbed 20%.

That's great for shipyards and anyone who wants to sell used vessels. But, unfortunately, there is still no improvement in rates or in the long-term demand outlook. In fact, the enthusiasm for new ships could stifle any upturn before it happens. Now on-order tonnage amounts to 12% of the 200-million-ton world trading fleet, which is already 35% too big for current demand. Yet reasoned estimates show cargoes growing only 4% annually for the next several years. "The last thing we need now is more ships," says one analyst. "It's a form of lunacy," adds another. Pessimists think the bulk market may be in the kind of long-term doldrums that have stalled the tankers for a decade.

All shipowners see the same dismal economic projections, so what are the splurgers betting on? They seem to figure that those who buy new ships at today's bargain prices will enjoy lower carrying costs than many older fleets. New fuel-efficient vessels could accelerate the scrapping of less efficient ships. And imponderables like port congestion or even war could quickly sop up supply.

Then again, this could simply be the nautical version of tulipomania. Some buyers figure they'll be able to

sell out at a handsome profit, even if rates don't justify the investment. A few experts think that's what the Japanese have in mind. "We could make a \$1 million profit today on each ship we ordered a few months ago," boasts one Greek owner.

Sounds crazy, doesn't it? But in shipping, emotion has always been as important as economics. Too many owners are determined to plow money back into the business, and too many yards are determined to build ships for political reasons. ■

Which airline you fly depends on how you buy the ticket and whose computer makes the reservation, and that is raising a call for new regulation.

Fixing tickets

By Howard Banks

EVERYBODY in business likes a little edge, and in the airline business you can get a nice edge with a computer. Is that wrong?

The two biggest airlines, United and American, own the two dominant computer reservation systems, with 60% of all scheduled domestic tickets sold through them. They like to fix the programs for their computers to give themselves a sales edge over rival airlines using the same system. "It's our competitive answer to the smaller carriers' lower costs," says American's president, Robert Crandall.

Unfair, say some smaller carriers like Western and Continental, which call the domination and bias of the systems a violation of antitrust rules.

But the travel agents, who are selling more than \$30 billion in tickets a year, up from only \$19 billion in 1978, and collecting 3 times the commissions, \$2.5 billion last year, are happy as clams with the present system—commissions also having been deregulated, along with airline fares.

The agents don't want to see a rival reservation system. They are lobbying Congress to overturn the CAB's 1981 rule allowing Ticketron, banks or su-

permarkets to sell airline tickets, starting in January 1985. Over 100 House members say they'll back the agents. Fortunately, the present Senate will not yield to such hypocrisy.

Bias in the computer reservation systems, together with extra commissions (overrides, in the trade) paid to agents, helped United and American increase market share by a significant 1% each so far this year. Both giants have also reportedly paid agents with sizable business travel accounts up to \$1 million to install their systems.

How do they fix the computer? First, they put their own flights on the top lines. Around 90% of all tickets are sold from the first screen on the computer, with half those sales coming from the top line itself. Some smaller airlines want the computer to list the lowest fares first, which might favor them but would require rewriting all the software, still based on pre-deregulation days, when schedules alone were the key sales factor.

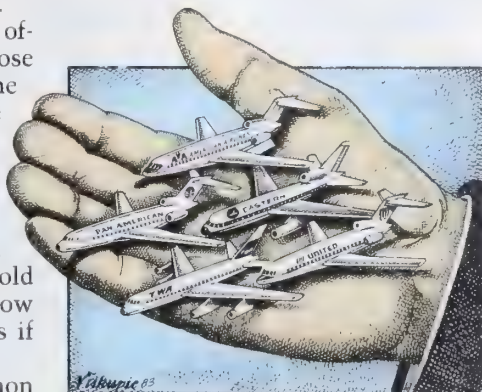
The two airlines juggle fees they charge competitors to be in their systems. If an airline doesn't compete directly, or provides a good feed of passengers to one of the giants, the price might be 25 cents for each ticket sold. A less desirable rival might pay

as much as \$6 a ticket, although United and American don't charge each other anything. There are tricks such as listing—or not listing—rivals' flights and connections, even if they are more convenient for travelers. The two dominant carriers insist that tickets be written on their nameplate, rather than that of the airline carrying the passenger, so that they benefit from the float (see *FORBES*, Feb. 28).

The systems installed in agents' offices don't have as much bias as those in the airlines' offices. But the House aviation subcommittee reckons the hearings it held recently showed that the overall tilt of the system is too far toward the airlines' operating the systems. The subcommittee has now passed the buck to the CAB, which will hold its own hearings to set rules on how far bias can go and stay "fair." As if bias can be fair.

CAB Chairman Dan McKinnon hopes the mere threat of detailed rule-making on specific charges for the use of reservation systems will solve the problem, and that United and American will see the light. But this raises a basic question about deregulation: Since Congress decided that within the limits of antitrust law airlines can set their own ticket prices, how can it contemplate the CAB's now fixing what the airlines can charge each other for a related service?

Purists on antitrust believe that even though TWA, Delta and Eastern operate smaller computer reservation systems, United's and American's are dominant enough to be deemed essential facilities that must be made available to all without discrimination. The Justice Department is already looking at the related allegation that computer bias and other tricks helped



push Braniff into bankruptcy. There have even been suggestions of forcing American and United to divest themselves entirely of their systems. That would deny the two majors the fruits of their heavy investment. American put at least \$142 million into hardware, plus paying agents to use it. United's investment may total \$250 million by year's end.

By comparison, dealing with the travel agents should be blindingly

straightforward, but probably will not be. The agents have become powerful as a result of deregulation. Passengers have turned to them as fares and routes grew complicated, and the airlines now depend on agents for a majority of their business. The airlines, it seems, dare not offend the agents, who forced Frontier to drop a plan to cut commission rates. Even mighty United dropped its idea of paying agents a straight fee per flight segment booked rather than a percentage of the ticket price. Doesn't what the agents are doing amount to illegal collusion? "It's individual action by agents, not collusion," McKinnon says hastily. A fine point.

The agents' attempt to block opening the market to nonagents could cost the public plenty. Until 1985, when the CAB ends their exclusive rights to sell tickets, they operate in what amounts to a government-approved club, the Air Traffic Conference, where airlines and agents set the rules. Limiting competition inhibits innovation; new ways to sell tickets at lower cost are blocked. Today the traveler doesn't know which system his agent is plugged into and favoring.

Thus the paradox: Whereas fares have come down with deregulation, agents' fees have trebled. In an era of deregulation does it make sense to give one group such a stranglehold on a vital industry and a vital service? ■

With plenty of electric power, the politicians can have a field day with rates. But there may be a painful tomorrow.

A chat with AEP's Pete White

By James Cook

FEW INDUSTRIES have faced a more abrupt and dramatic reversal in their circumstances than the U.S. electric power industry. It wasn't all that long ago that U.S. electric power consumption was growing at nearly twice the rate of the real gross national product. But now

the growth in demand has slackened, and in 1982 U.S. power consumption actually declined. For companies like American Electric Power it was like slamming on the brakes and finding yourself sailing through the wind-shield.

The U.S.' largest privately owned power producer, AEP was more vulnerable than most. Its seven-state sys-

tem, offering some of the lowest-cost power in the country, spreads right across America's battered industrial heartland—the key manufacturing states of Ohio, Indiana and Michigan. In AEP's area, total power consumption dropped nearly 14% in 1982, with industrial sales and sales to other utilities—the two categories that provide two-thirds of AEP's business—off over 20%.

AEP's revenues fell for the first time since 1938, to \$4.18 billion, even though rate increases offset most of the decline in dollar terms. Earnings suffered more. They were off 9% and would have been off even further but for various accounting conventions. In fact, 54% of those earnings came from the item called Allowance for Funds Used During Construction—credits resulting from the capitalization of interest and other costs entailed by the projects under construction. Eliminating these paper profits and some others, of the \$2.03 per share AEP reported as earnings, probably less than \$1 was in cash.

And no early improvement is in sight. Instead of the 6.8% annual gain



in consumption AEP had gotten used to between 1960 and 1973, demand now seemed likely to grow only 2.3% annually through the next ten years. AEP's chairman is Willis S. (Pete) White Jr., 57, a Virginia Polytechnic electrical engineer. His is the demanding task of managing the big utility in these difficult circumstances. He has already cut more than \$100 million from AEP's operating expenses, no small undertaking with a cost structure as inflexible as a utility's. "In an electric utility," White says, "the majority of your costs go on whether people use electricity or not, so we have had to take some pretty drastic steps, and we did take them."

White cut AEP's 140 top management salaries by 5%, trimmed \$35 million by deferring some maintenance, eliminated \$30 million normally spent on outside consultants and temporarily shut down a number of AEP's coal mines. Altogether, he laid off almost 2,900 employees in less than four months. But that \$100 million in savings may eventually backfire. Sighs White: "Now in several jurisdictions they're saying, 'We're going to set your rates on that lower cost basis.'"

AEP had already halted construction at the Poston plant of its Columbus & Southern Ohio affiliate after spending \$42 million. And it may never draw on its \$400 million, 228,000-kilowatt-share in Cincinnati Gas & Electric's nearly completed Zimmer plant, which the NRC has disapproved of because of doubts over

its safety. But White began to move toward the bone. Last November AEP gave up on a pumped-storage hydroelectric project for southwestern Virginia it had been trying to get off the ground for four years and shelved a 2.6-million-kilowatt project scheduled to get under construction in Lewis County, Ky. by the 1990s. AEP was even considering putting some of its older facilities in "temporary cold reserve" and might well have, except that its new plants are probably higher in cost than its old.

Putting on the brakes in such a long-lead-time business as electricity is not easily done. AEP couldn't do much about two 1.3-million-kilowatt units nearing completion at Rockport, Ind., one scheduled for operation in late 1984 and the other in late 1986. AEP's reserve capacity is already running above 35%, and together the two Rockport units will add another 12% to AEP's total capacity, but both units were so far along that AEP could not have afforded to back out of them. So, AEP is still going ahead, knowing all too well that it will have to work hard to market Rockport's additional output.

Also hanging over AEP is the hue and cry about acid rain. Some sort of acid rain legislation seems inevitable, and AEP could be especially vulnerable. In an effort to solve its sulfur emissions problem a decade or so ago, AEP opted for tall stacks rather than scrubbers as much of the industry did, and tall stacks disperse pollutants rather than remove them. Thus AEP

may one day have to reequip with scrubbers or retire its existing power plants or rearrange its coal supplies. The costs could be enormous, running as high as \$7 billion, according to AEP's estimate. Will this be money well spent? Probably not. Acid rain has become an emotional issue, the kind our so-called leaders habitually pander to. "No matter what the facts are," White says bitterly, "the politicians are bound and determined to do something."

Meanwhile, White will have to work hard to market all that new capacity that's coming on stream in 1984 and 1986. Once a new plant goes into operation a lot of the bookkeeping benefits cease, and the new plant is supposed to generate more than enough revenues to offset the full burden of interest and other charges it will carry.

In order to assure that the market is there, AEP is getting back into the industrial development business. It is even reviving marketing programs for techniques like the heat pump and electric thermal storage, which the regulatory commissions had forced it to drop during the 1970s when incentives to increase power consumption seemed positively sinful.

Is AEP then a hopeless case, a corporate Bangladesh? Surprisingly, the answer is no. Under normal circumstances, AEP capital budgets could have reached \$1.8 billion. Instead, AEP will be spending \$700 million a year over the next three years as Rockport is completed, but after that

its outlays will drop to a more manageable \$550 million. After that, nothing. With the Rockport units complete, AEP will probably not need to add any more plants until after the end of the century, this for a company that's been doubling its capacity every ten years or less for as long as anyone can remember.

So the financial pressures will abate at the same time as demand for electricity will begin to show at least modest improvement. Despite another 10% decline in first-half earnings on a 6% decline in revenues, White believes that the second half will be good enough to hold AEP's 1983 results at least to 1982 levels. "We think the thing bottomed out in the first quarter," he says, "and in May, for the first time in many months, industrial demand was up."

Pausing from his immediate concerns for a glimpse into the future, White worries that the nation will face a power shortage a bit down the road. If it does, where will the power come from? AEP's new Rockport plant will cost \$820 a kilowatt, vs. \$200 for a comparably sized plant a decade ago, and \$2,000 or more in 1995. That's \$5 billion as opposed to \$2 billion.

On that basis, AEP would have to increase its assets by 40% in order to finance a 10% increase in its output. How could a utility raise that kind of money? Especially with rate commissions apparently determined that the consumer will not have to pay today the costs of providing the power he'll use tomorrow.

"They are sacrificing the long term for the short," White says. In short, the current populism so readily apparent in the rate-setting process is affordable only at a time when the economy is depressed and demand is low. "Given the current regulatory attitudes, I do not think the industry can sustain construction to meet growth much more than we are experiencing today. We would just bankrupt the industry."

White doesn't doubt that the growth will be there. The market, he maintains, has already conserved as much as it can. And as the economy grows, it's going to have to grow off electric power just as it has for the last 30 years.

White doesn't mention the Washington Public Power Supply System debacle, but its ghost is in the room while he talks. The politicians can thumb their noses at power plants and at the interests of their investors so long as demand is depressed. But there's always a tomorrow. ■

Why are the world's bankers descending on Des Moines? Because they want to cut the depositors' check float, of course.

Iowa, the debit card state

By Jeff Blyskal

THERE IS ALMOST nothing out of the ordinary about Dee Tiffany's weekly trip to the Dahl's supermarket on Fleur Drive in Des Moines. The 30-year-old Mary Kay Cosmetics sales director strolls the aisles, making sure not to forget the Prairie Farms milk or the Colonial bread. At a checkout counter in Iowa,

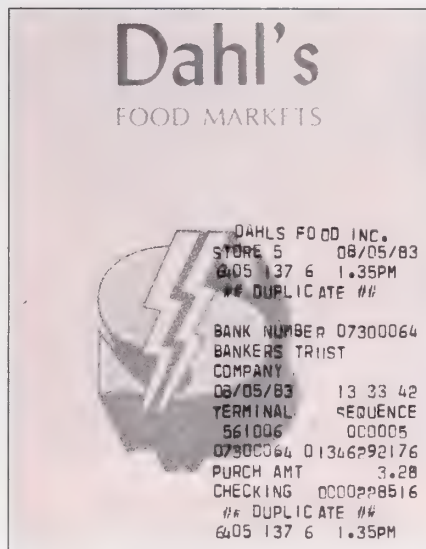
lucre. It's all done electronically.

Des Moines, Iowa is probably the last place in the world you would expect to find the banking of tomorrow. Nevertheless, Dahl's nine electronic funds transfer point-of-sale (POS) checkout terminals, along with 15 more at the Hy-Vee supermarket on 35th Street in West Des Moines, are the first two such operating systems in the U.S. A small start, but they look like prototypes for the entire country, if not the world.

Since the systems were installed two years ago, Barclays Bank, Security Pacific and Kroger Co. executives, to name but a few, have dropped in for a look-see, as have bankers from Germany, Japan, France, Australia and South America. "Barnett Banks has been here three times," counts Dale Dooley, president of ITS Inc., which operates the computer "switch" that makes electronic funds transfers possible for some 205 participating Iowa banks, S&Ls and credit unions. "Bank of America has been here five times." Visitor traffic became so heavy that ITS now charges \$500 for a two-hour consultation and \$1,000 if a guest wants to go to the supermarket, too.

Earlier this year, Barnett Banks announced it was establishing an electronic funds transfer network in 500 Winn-Dixie, Pantry Pride and Albertson's supermarkets in Florida. Barnett expects to add POS capability like Dahl's and Hy-Vee's by 1985. NCR is also talking about installations with banks and retailers in 20 states, including California, New York and New Jersey. Hy-Vee is ready to add POS to six of its Des Moines area stores. Close competitor Dahl's will likely follow suit.

Why are supermarkets acting more like banks? Because some 9% of all



*Tomorrow's supermarket receipt
No messy checks; no filthy lucre.*

like everywhere else, the food bill seems to have one digit too many. Nothing unusual, until it comes time to pay.

Then Tiffany takes her green Northwest Bank debit card and slides it through a \$400 tan-and-black NCR magnetic stripe reader no bigger than a notebook. She punches an identification number into a keyboard, and in less than ten seconds has paid for her groceries. No messy checks, no filthy

checks written are used to buy food. In Des Moines, an astounding 60% of all checks cashed are cashed at supermarkets. This is partly because of Dahl's liberal check-cashing policy, which is used, instead of advertising, to draw customers (the 11-store chain has never advertised).

Checks cost money. If a typical supermarket takes in 33% of a week's receipts in checks, that's about \$60,000 the bank has to cover, all year round. At an 11% prime, that's \$6,600 a year. Doesn't sound like much. But considering the average supermarket margin is a scant 1%, that \$6,600 is almost a month's profit.

ITS' first POS test, in 1977, was a bomb. Introduced with much hoopla, the 44 terminals at various retail locations required too many complicated steps and were not connected to the cash registers. Sometimes they were not even near the cash registers.

The present system apparently has eliminated such drawbacks. The Hy-Vee supermarket does about 4,000 POS transactions a month; Dahl's does about 2,000. "The only problem is cost," says Dahl's President Robert Hand. Each location costs some \$18,000 in magnetic stripe readers and keyboard add-ons to the NCR cash registers; the processors; and software. But volume sales of the systems should cut costs. Moreover, "the store receives good funds the next day, and the economics of the system appear to be very good," says Paul Close, director of Price Waterhouse's Retail Automation Services, which has analyzed the Iowa setup.

So the retailers and banks benefit by getting their hands on the customer's float. But will consumers go for debit cards when they can use a check and play the float themselves?

Probably. If POS is beneficial to bankers, they will price check transactions higher than their debit card counterparts to nudge consumers along. "The cost of processing one check is estimated at about 50 cents," says Dooley. "An electronic funds transfer costs about 30 cents." And the higher the volume in EFT, the lower the per-transaction cost, because of the high fixed overhead.

Of course, this type of electronic checkout won't spread overnight. Dooley estimates it could be at least the late 1980s before such systems gain wide acceptance, considering that NCR is the only show in town today and considering the cost and lead times involved. But Dahl's Supermarkets President Hand is more optimistic: "One day this is just going to explode." ■

Last year Congress tried to limit tax-exempt borrowing that finances private projects. This year, perhaps, it should try harder.

Alms for the not-so-poor?

By Christopher Power

LAST APRIL a local construction company asked the city of Minneapolis to issue industrial revenue bonds (IRBs) for a high rise in the booming downtown area. The city agreed, but there was a catch: Under federal law, industrial revenue bonds, which pay interest that is tax-exempt, are limited to \$10 million per issue, and this building would cost more.



No problem. The construction company simply sold parts of the proposed building to five different partnerships, including two law firms. Then the city gave preliminary approval for five IRBs, and presto: \$37 million of tax-exempt bonds for the city's first IRB-funded "condominium office building."

Wait a minute. Didn't last year's tax reforms end such abuse of public-sector borrowing powers? Who's kidding whom? As long as there are plenty of lawyers, there will be loopholes in the laws. In 1982 nearly \$13 billion worth of IRBs were issued, and the 1983 figure should be as large. The Treasury estimates its cost in uncol-

lected federal revenues at \$3.7 billion in fiscal 1983 and \$4.3 billion in 1984.

The new tax law, of course, did address some of the more alarming IRB excesses, like the "burger bonds" that financed fast-food chains and the publicly backed borrowing that helped launch nonindustrial projects, such as private golf courses, skating rinks and massage parlors. But close the door and they come through the windows. A few examples:

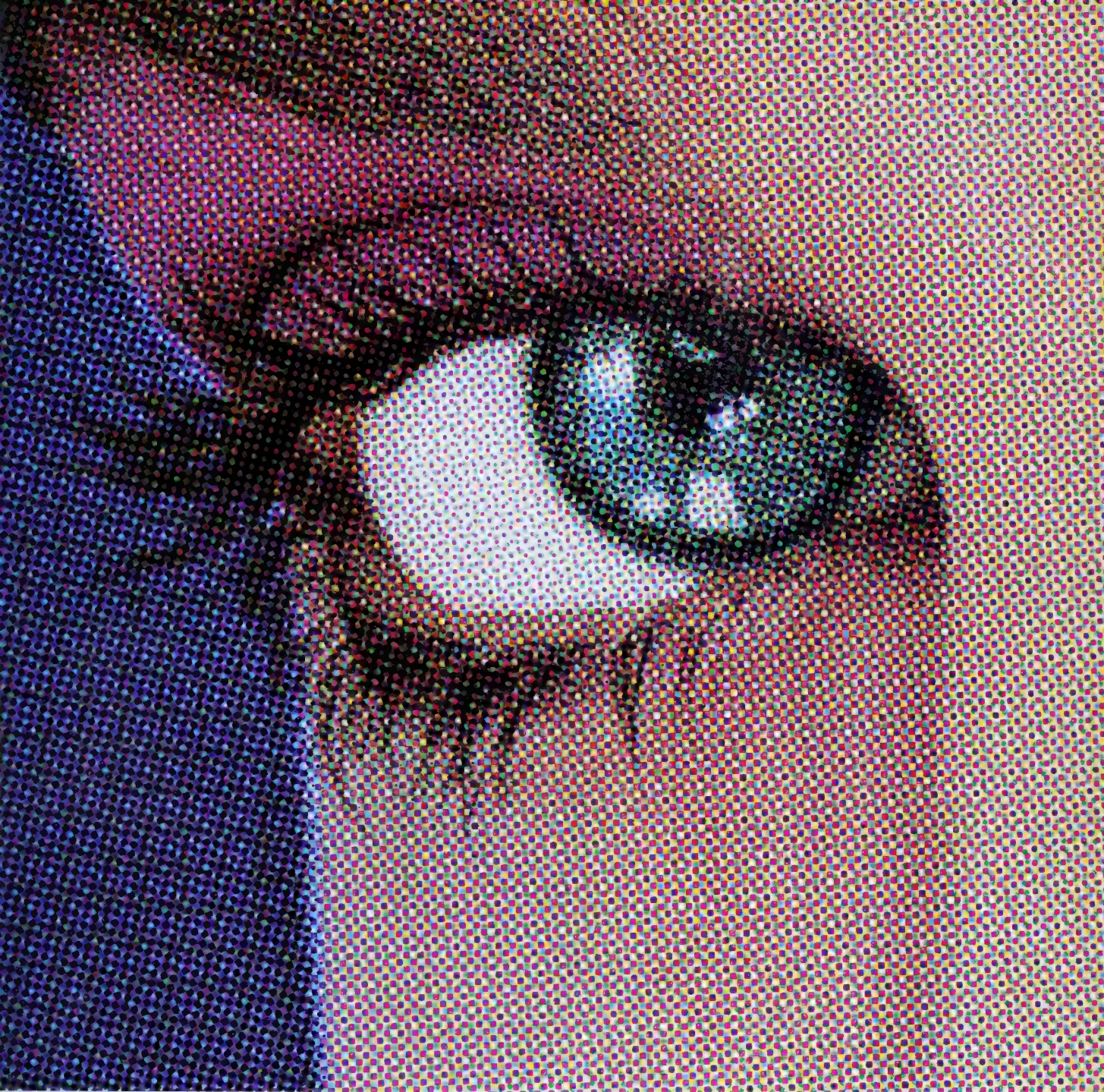
- Last December the city of Austin approved a \$6 million IRB for a Howard Johnson hotel on land, conveniently designated "blighted," next to a major highway entering the city.

- In June a Norfolk, Va. psychiatrist won preliminary approval from the local port authority for a \$2.5 million issue to buy a private jet ("for business," he says).

- Doctors, lawyers and dentists nearly everywhere are setting up clinics in medical office buildings financed by industrial revenue bonds at low interest rates.

Representative J.J. Pickle (D-Tex.) is sponsoring a bill called the Industrial Development Bond Limitation Act, which he thinks will control abuses. Its main terms: 1) A company that receives an IRB must use less favorable depreciation methods; 2) no company with worldwide capital expenditures of over \$20 million can receive a small-issue IRB; 3) virtually no IRB could be used to buy land.

Pickle has a tough fight ahead. Almost everyone who has testified at hearings on his bill is violently opposed. To listen to the critics you would think industrial revenue bonds were being used to house the poor and rebuild the cities rather than to enrich law firms, real estate developers and tax-shelter seekers. ■



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June 23, 1982
26

one m or two?

Mr. Kevin Ellis
Samurai Ichiban Fashions
12 Chiodo Ku
Tokyo, Japan

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After examining your recent shipment of 200 dozen defective Nehru jackets I would personally like to string you up by your thumbs.

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In addition, we have never seen And whoever heard of Nehru jackets with lapels? before. It'll be a cold day in Calcutta, Mush-for-Brains, before we pay you one red cent.

→ All my best to your lovely wife and children.

Sincerely,

Brian O'Neill
Vice President of Sales

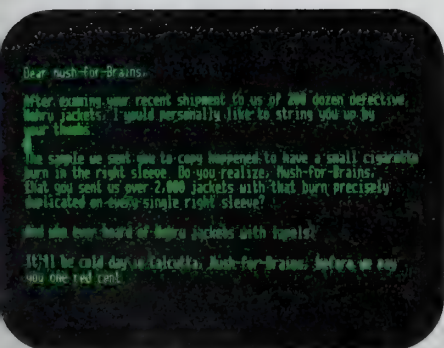
I regret to inform you that the entire lot was found defective of every jacket.

I told them
Brian O'Neill

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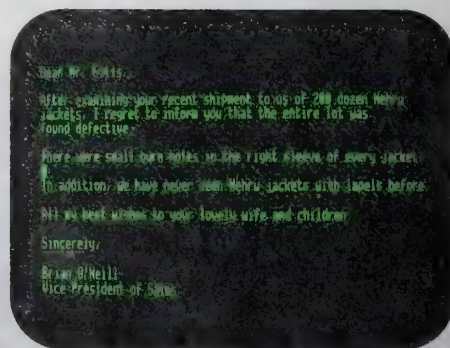


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The most personal computer.

Suppose Baldwin-United hadn't ventured beyond pianos. Its problems would be gone—except for slumping demand, foreign competition and shifting markets.

Mood indigo



*Piano warehouse sale on Long Island, N.Y.
Playing to an emptier house.*

By Laura Saunders

ONCE UPON A TIME, D.H. Baldwin was simply one of the nation's largest piano makers. Like all the leaders in the small but stable field, it had over 100 years' experience building a product virtually unchanged since the early 1900s. The future looked so good that in 1969 a rising young executive named Morley Thompson predicted that piano sales would double by 1980.

Unfortunately, he was wrong. Over the past four years the wholesale piano business, with annual sales of \$220 million, is off by about 30%. On average, profit margins on piano sales are still below the 1978 level at Baldwin, Kimball and Wurlitzer, three of the industry's top four players. And Peter Perez, who once ran CBS' Steinway & Sons, picked up the other, Aeolian, at a fire-sale price.

Being out of tune with piano demand, however, was among the least of Morley Thompson's errors. As chief executive of a renamed Baldwin-United, he presided over a classic corporate disaster. But while Baldwin is wallowing near bankruptcy, the business that made its rapid expansion possible faces major change.

The problem? Interest rates, claim a chorus of piano executives. And they're right, up to a point. "Pianos are a postponable purchase," says James Birk, executive vice president of the keyboard division at Kimball, "and piano makers got caught in the credit squeeze." Indeed, over 70% of new pianos are bought on time—one reason piano manufacturers have a knack for turning into finance companies. With interest costs sometimes 25% and cheap models selling for \$1,300, however, customer enthusiasm was hardly high-pitched.

But tight money is only part of the problem. What Thompson and others failed to see coming was a major demographic shift: From 1965 to 1975 the birth rate per 1,000 women dropped from 96 to 66. Since most pianos are bought for elementary school children, the effect of that should have been obvious. Now, austerity budgets in many schools compound the problem. "Music is the first thing cut, even before gym and languages," laments one executive.

On the home front, the cultural cachet of playing the piano has diminished, too. "Remember that this generation of parents grew up on Jimi Hendrix," says Judith Morrison Lipton of *Sound Arts Merchandising Journal*. No longer do upwardly mobile mothers automatically dispatch the

How to play the market without risking your life.

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kids to the blue-haired lady down the street for piano lessons. Sales of low-end spinets, long one of the U.S. makers' most popular models, have fallen by over 50% since 1978.

Foreign competitors, meanwhile, focused on the top of the line. In the 1960s Yamaha, a reed organ company that moved into pianos long before motorcycles, started selling grand pianos here priced 30% to 50% below domestic units. The Koreans weren't far behind, and today U.S. firms have only 30% of the grand piano market.

That's why the future for piano makers is likely to be out of tune, despite lower interest rates. Many piano makers want tighter tariff protection, but that isn't likely to help, given their high production costs. A good piano has over 8,000 moving parts and uses hard-to-replace materials like spruce with ten grains per inch and specialty felt made with the highest

grade of wool available. And the threat of even tougher competition now looms from the Chinese.

There's a technological question, too. No one knows whether the new low-cost keyboards marketed by electronics firms like Casio—also Japanese—will help expand the piano business. Of the industry leaders, only Yamaha offers a similar product, priced at under \$100 and including computer-game-like features to teach children pitch and scales. Baldwin and Kimball, meanwhile, have borrowed technology from their organ divisions to build small electronic keyboards that start at around \$500.

The question of who will survive best depends partly on how well manufacturers can replenish dealer ranks. The number of retail outlets where pianos are sold has fallen by over 20% since 1978, with 1,200 dealer closings in the past three years. One technique

that could make dealers happier, however, is for piano makers to help them develop better education programs. Especially in smaller cities, the U.S. dealers who survived the recession best were often the ones with several hundred music students, all of whom are potential customers.

What about Baldwin's more immediate problems? With 25% of the market, its piano division ranks with Kimball's as the strongest in the industry. A company spokesman says the business is not for sale, and no big competitor could buy it without antitrust problems. Industry observers wonder about a spinoff to shareholders, but with the turbulent market, investors might not be overwhelmed.

As an old-time piano executive used to say, the music business can be a very good one, but only for a small number of people. Don't be surprised if that number gets even smaller. ■

By sacrificing 5,000-plus jobs, Clark Equipment's James Rinehart hopes to save 10,000 more. But are cutbacks enough?

After the cutbacks, what?

By Martin Love

THERE IS POETRY in the summer landscape of southwest Michigan and northern Indiana. The cornfields stretch endlessly, and the crop this year, even seared by heat and drought, still rises nearly as high as an elephant's eye. Less poetic is a message posted in the University of Notre Dame's cathedral in South Bend: "Pray for work for son after 33 years. His job at Clark is dispensed with."

Joblessness and forlorn hope are common themes on the cathedral bulletin board, only 15 miles from Buchanan, Mich. There the major employer, Clark Equipment, has laid off more than one-third its worldwide work force in the past year and a half. All told, 5,400 people will lose their jobs by year-end. Many of the out-of-

work live near the Michigan-Indiana border. Clark CEO James R. Rinehart says of the huge cutback: "It's a question of survival."

Rinehart now is talking of corporate survival. Yet only four years ago the maker of industrial lift trucks, automated storage and retrieval systems, construction machinery, axles and transmissions was basking in prosperity. Sales for 1979 hit \$1.73 billion, and profits were \$106 million, or \$8.03 a share. Things have gone straight downhill since then. Last year Clark dropped \$154 million, or \$12.10 a share.

Is this just another dreary example of the decline of American heavy industry? In part, yes, but only in part. Clark would be in far better shape today had Rinehart's predecessors not misread so utterly what was happen-

ing in the economy. Blinded by prosperity, they expanded and then expanded again.

Rinehart, 52, a graduate of Yale who spent many years as an executive observer of miscalculation in the automobile industry, came to Clark two years ago to try to save it. He points out that in its best year ever the company was operating at only 70% of capacity. During the 1970s the company had put five big new plants on line, four in the South and one in Europe. It was a case of strategic planning gone berserk—expansion based on assumptions about the inherently unknowable future instead of on the precisely knowable present.

Rinehart has bought time for the besieged firm with layoffs, hiring freezes and ruthless reductions in inventory, which has shrunk to \$323 million worth of equipment from \$567 million in the past 18 months.

Clark itself had to shrink, too. No more expansion; on the contrary, Rinehart set aside reserves of \$214 million pretax to finance plant consolidation and capacity reduction aimed at permitting Clark to break even with sales of only \$925 million. The break-even point had been \$1.425 billion. This year Rinehart is shutting three of four of Clark's Michigan manufacturing plants and is shifting their operations to plants in Kentucky and North Carolina, both nonunion, and Ontario.

Clark has managed a modest profit so far in 1983, and its debt burden has greatly lightened with \$47 million in new equity capital, which it was able to garner during the then red-hot equi-

ty market early this year.

Rinehart has stopped the bleeding. Analysts figure Clark could earn 50 cents or even \$1 for the full year. By next year, some analysts say, Clark could earn \$3 or more a share. The recessionary slump has ended, and "as of midsummer," Rinehart says, "orders for Clark equipment were up 18% across the board."

Yet the future is a big question mark. Clark must keep quality products on the market at attractive prices against tough Japanese competition.



Clark CEO James R. Rinehart
"It's a question of survival."

Cost-cutting is only part of the battle: Without healthy profits, vital product development suffers.

Clark has lately taken a competitive clobbering in two of its three biggest businesses, materials handling equipment (mostly lift trucks) and construction machinery. Relative newcomers to the industrial truck (lift) market, makers such as Toyota, Nissan and Komatsu, have grabbed more than 20% of the Western market. Domestic competitors have radically shifted strategies. Eaton is spinning off its lift-truck business, Hyster produces three series of lift trucks in

Ireland (aimed at the low end of the market), and Caterpillar is having lifts manufactured under contract in Korea and Norway.

Clark lost about 15% of its North American market share in the last six years, although the company has just begun to win back a bit of it. Clark deals with much the same competitive situation in construction and other heavy machinery, and cost-cutting remains essential to its survival in many lines. In perhaps its strongest business, axles and transmissions, its competitors include Detroit Diesel Allison (a division of GM), Rockwell and others.

As if all this weren't bad enough, Clark suffers from the strong dollar. This because 43% of all of Clark's sales in 1982 were foreign—and interest rates remain high.

Rinehart's cost-cutting tactics having worked, what is his longer-term strategy? For growth Clark is looking to services. Its only truly winning business recently has been its credit subsidiary. Despite high interest rates, its operating income rose by 20.9%, to \$16.2 million, last year, and income will increase again in 1983. In December Clark acquired White Motor's credit business, which raised the non-Clark portion of the subsidiary's accounts receivable portfolio to 29%. That portion, says Rinehart, should be at 50% by 1985. "We now have a highly successful finance company, one of the ten large

in-house credit units for industrial equipment makers in the U.S.," he says. "And we provide a number of corporate services that could become part of full-fledged business units."

For example, the purchase and distribution of parts out of its centralized facility in Chicago intrigues Rinehart. So do prospects in information management, graphic arts and trucking, all of which the company dabbles in internally.

Is this an adequate strategy for long-term survival? Clark's shareholders and its remaining employees can only hope so. ■

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Bob Petersen built a tiny hot rod magazine into a fortune on three rules: simplicity, simplicity and simplicity.

Know thy reader

By Ellen Paris

WHEN THE ELEVATOR DOORS open at the executive offices of Los Angeles' Petersen Publishing Building, the visitor is confronted by a polar bear, reared to its full 13-foot height. The beast is mounted, and a framed sign notes it was felled by Robert E. Petersen in 1965 with a .44 magnum.

All in all, not a bad symbol of Bob Petersen, a publisher who knows his readers because he shares their interests. Petersen, 56, son of a southern California auto mechanic, has built his Petersen Publishing Co. into a hobby-magazine empire whose 17 monthly titles—including such newsstand perennials as *Hot Rod*, *Hunting*, *Guns & Ammo* and *Teen*—collectively sell 3 million copies a month and last year brought in \$130 million in ad revenues and newsstand sales.

Like the 2.5 million readers who buy his seven automobile magazines, Petersen is a car buff with an extensive collection, including a new \$118,000 Aston Martin. Like the 725,000 outdoorsmen who buy *Hunting* and *Guns & Ammo*, Petersen is an avid hunter—witness the polar bear.

To make sure his editors also talk with the readers, and not down to or beyond them, Petersen and Fred Waingrow, Petersen Publishing's president since 1967, tend to promote staffers who are hobby enthusiasts first, writers second. That keeps the writer-reader dialog intimate. Thus does *Motor Trend's* Editor Tony Swan write in *MT's* current issue on "The Mendacity of Radar" ("I see a strong parallel between the robber barons of old and the modern radar officer"). Corny? Of course. But the magazine's 725,000 readers love seeing the speed-trap cops put down.



Robert Petersen of Petersen Publishing
From hobbies, an empire.

Moreover, if a magazine proves successful, Petersen won't change it. "If we see one of our magazines becoming too general," explains Waingrow, "then, rather than add pages and dilute the magazine for our hard-core readers, we start a new magazine." That often works out well. For example, some of *Hot Rod's* 825,000 readers lose interest in hot rods when they reach their mid-30s and move on to sports and luxury cars—the realm of *Motor Trend*, whose 750,000 circulation makes it the largest general interest automotive magazine, Petersen claims. "We want to make a guy a lifetime reader of Petersen publications, not just a reader of one of our magazines," he says.

Petersen likes to cover hobbies that become expensive addictions. Car, boat and gun buffs make good audiences because they are forever buying new gadgets. Conversely, Petersen shuns joggers and surfers, figuring most of their needs are met once they have bought their shoes or boards.

Nor does Petersen chase subscriptions. Sure, it's nice to get cash up front. But given his magazine's high

readership turnover, maintaining subscription lists gets expensive. So keep things simple: "For the kind of magazine I publish," says Petersen, "the newsstand is king."

Petersen has had his mistakes, to be sure. Both CBS Publications' *Road & Track* and Ziff-Davis' *Car & Driver* are ahead of *Motor Trend* in ad pages because Petersen underestimated the growing strength of the import market early on. And he overestimated the staying power of the CB radio craze by launching *CB Life* in 1977.

But he also cuts his losses fast. He folded the CB magazine in ten months, for a total loss of just \$100,000. In 1975 he bit the bullet on *Wheels Afield*, a recreational vehicle magazine started before the gasoline shortages clobbered the RV business.

A more expensive chapter was closed in 1978, when Petersen shut *Inspiration*, a mass-market religious magazine that broke all of Petersen's own rules. Petersen now concedes that he became too "emotionally involved" with it.

Petersen and his wife, Margie, own every penny of Petersen Publishing's equity. Well-informed outsiders guess that the enterprise might be worth \$175 million to another publishing house. Over the years, nevertheless,

they have rebuffed would-be acquirers. But because of a family tragedy, Petersen Publishing will probably have to be sold someday. Petersen's only two children were killed in a plane crash. Petersen and his wife still find it almost impossible to speak of this.

The Petersens have always been involved in fundraising and charity work and in addition own the Petersen Gallery in Beverly Hills. Another interest is Los Angeles' renowned Scandia restaurant which Petersen bought in 1978, an indulgence to which his wife now attends.

But, mostly, Petersen thinks of new titles to put on the supermarket magazine racks. Now that campers are coming back, he thinks he may relaunch that RV magazine. And he may yet find a place in the crowded home computer magazine market, and most likely would test it with a one-shot publication. "It's a very safe way to start a magazine," Petersen says. "If the one shot is a hit, we can let it grow into a magazine. We don't have to risk a fortune."

Pure Petersen—keep it simple. ■

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Lifecare for the elderly has become a growth industry. Unfortunately, it's also attracting fast-buck promoters.

Trouble in the elysian fields

**By Howard Rudnitsky
with Walecia Konrad**

IN A GRAYING AMERICA, "lifecare" is a natural. Sell your home and invest, say, \$65,000 and an \$850 monthly maintenance fee in a comfortable one-bedroom apartment, with planned recreational activities, housekeeping, medical care and, if you need it, long-term care available for additional fees.

It makes so much sense that, since the 1960s alone, some 250 lifecare, or "continuing care," facilities have been built for nearly 90,000 middle-class elderly Americans. The success of the best of them, such as Kendal Crosslands in Pennsylvania and Cathedral Village in Philadelphia, has inspired a \$2.5 billion (assets) industry, growing at 15% to 20% a year. In the next 18 to 24 months alone, says W.G. Henderson, head of the Atlanta municipal bond dealer and underwriter Henderson Few & Co., nearly \$1 billion worth of lifecare financings could come to market.

But there are problems in the elysian fields. The overwhelming majority of the at least 300 continuing care facilities now in existence are soundly financed and well run. But by no means have all of them been, especially in recent years.

In Philadelphia, for example, the \$33 million Fiddler's Woods project went into receivership last June amid a welter of lawsuits, without having sold a single one of its 300 units. Its 14½% bonds were recently selling at 37½ cents on the dollar. In nearby Bucks County, Penna., the \$15.3 million Baptist Estates facility is only about one-third occupied 21 months after it was built, and its 8.75% revenue bonds are in default.

At least four or five other projects

are in trouble, with too few residents to service the interest on the bonds much more than another year or so, according to one municipal bond underwriter. Another expert estimates that even with adequate occupancy, at least one in five of all lifecare financings may have significantly underestimated its long-term costs.

Sadly, when a project gets into trouble, the project's sponsor must throw more money into the pot or else, often, the elderly residents must pony up more money themselves. Says one municipal bond dealer: "Ultimately, it's the old people who pay the freight."

That's why an active religious or charitable sponsor is always a point in the project's favor. In Pensacola, Fla. the Azalea Trace project, sponsored by Baptist Hospital, is still only half full three years after opening. But Baptist Hospital stood behind it, putting in another \$4 million in capital and bringing in an experienced manager who signed up 68 more residents.

Unfortunately, Fiddler's Woods and Baptist Estates had only the appearance of such support. B'nai B'rith was listed on the Fiddler's Woods prospectus, but as a "sponsor of cultural and heritage activities." Nor was Baptist Estates directly sponsored by the Baptist Church. The real sponsors, in both cases, were promoters, developers and underwriters. And they are hardly hurting.

Take Fiddler's Woods, where Sage Development Corp. of Bala Cynwyd, Penna. generated at least \$3 million in fees and other income. The underwriters, Blyth Eastman Paine Webber Inc. and Herbert J. Sims & Co., Inc., got \$2.1 million in fees for managing the \$33 million bond issue.

The fees-upfront crowd did all right at Baptist Estates, too. Marketing,

consulting, development planning, architectural and other fees came to 1.3 million. Coopers & Lybrand got a portion of that for a feasibility study reporting that "the assumptions and data used for the purposes of the projections are reasonable and appropriate, and the projected outcome is therefore reasonable."

Not to be outdone were the promoters of a \$36 million Atlanta project, Lenbrook Square. A year and a half after the bonds were sold, only 46 of the 270 units are occupied, and less than half the \$36 million raised went into construction. Where did the money go? Mostly for interest payments and acquisition costs. But Price Waterhouse and a gaggle of lawyers and others got \$984,000 in fees. The developers/investors, Lenbrook Properties, Inc., received a \$2 million development fee. And the underwriter, Hereth, Orr & Jones, Inc., took away a \$3.2 million fee, or nearly 9% of the bond issue.

In fact, Hereth, Orr seems to have made continuing care something of a specialty. The Atlanta-based underwriter also handled the largest lifecare project so far, the \$53 million Royal Regency in Winter Haven, Fla. Ten months after it was financed, Royal Regency has sold only 10% of its units. But Hereth, Orr has its \$4.7 million underwriting fee, and the developer, Royal Care Communities, Ltd., has already received \$500,000 in development fees and will get \$1.5 million more when the project hits 95% occupancy. Moreover, the developing company headed by Allen O. Jones bought the 460-unit apartment building that houses the project for \$16 million, and set aside \$360,000 worth of apartments for its own use. It then sold the building to Royal Regency for \$16 million.

In addition, Royal Care Communities claimed \$1.86 million for development and marketing expenses before the bonds were issued, and wound up with a \$1.2 million profit afterward. The partnership's principals? One is Finerock Corp., owned by Hereth, Orr President Jack R. Hereth. Another is Jones, a former Hereth, Orr partner.

That's not the only such story in Florida, a state with a huge elderly population and a lot of eager promoters. In fact, the Florida legislature—with the support of many concerned lifecare operators themselves—passed a tough law in July requiring, among other things, contracts for 50% pre-sale. Similar tough legislation is before the state senate in Pennsylvania. And California has had a strict law

since 1978, following the biggest life-care fiasco to date: the 1977 bankruptcy and 5½-year reorganization of Pacific Homes. It has cost the sponsoring Methodist Church, as well as bondholders and residents, over \$40 million in loans, added resident fees and lost interest payments on the revenue bonds.

Even when a project successfully attracts residents, actuarial planning and cost assumptions are often faulty. Lifecare is, in effect, an insurance policy. The investments of residents who need little medical care, or who die soon, support those who need lots of medical care or live longer. According to an analysis of the industry by the Wharton School, some developers simply didn't understand this. They conceived and financed projects on

in 5% to 10% of these cases, they may not be able to avoid a financial bind."

The lifecare concept has been around for a long time. But it really took off in the 1960s as the population began aging. Until recent years, the financing was generally through five- to seven-year mortgages from insurance companies or S&Ls. When interest rates rose, that became impractical, so the developers turned to municipal revenue bonds. Then real estate promoters started seeing the glimmer of gold in this new field, just when many of their traditional markets had dried up.

Soon, investors were being lured by interest-free coupons of up to 15% without noticing they had little to go on. Fitch Investors Service, Inc. rates a few lifecare bonds, but Moody's In-

Meadows Retirement Village.

How can you spot a project headed for trouble? Scrutinize prospectuses carefully, for a start. Any lifecare facility using less than half its financing for construction, says David Berger, the bondholders' attorney at Fiddler's Woods, is "the modern-day equivalent of a Ponzi scheme."

"Half of the feasibility studies are baloney," says a director of a successful project. The key to feasibility is a substantial down payment by residents—one-third or one-half the total—well in advance of the financing. Lenbrook Square, by contrast, required only a \$1,000 deposit and had only \$74,000 in the till when the \$36 million worth of bonds were issued in early 1982. Today the developers also have 10% down payments from 145



Vacant buildings at Fiddler's Woods lifecare project in Pennsylvania

But the fees-upfront crowd did all right.

faulty assumptions of life expectancy, and even grossly underestimated inflation, and thus their costs.

That's why Jack Blumenthal, a health care accountant with Hein & Associates in Denver, estimates that up to 25% of all lifecare projects may be based on underestimated cost projections. That doesn't mean the project is headed for default, of course. "If they address the problem early enough, most managements can probably find ways to raise funds and hold down costs," says Blumenthal. "But

vestors Service and Standard & Poor's do not, since each project is a startup. Too speculative.

Promoters like the Reverend Kenneth Paul Berg haven't helped the lifecare business, either. Reverend Berg, head of an outfit called Christian Services International, Inc., was involved with about 40 projects, most of which have had serious financial problems. The Alabama attorney general's office indicted Berg on 150 counts of fraud and theft after trying to get money from residents to save his failing

prospective purchasers. However, some may not be able or willing to pay the \$100,000 average entrance fee. And it could take a few years for them to move in.

It's an old story: inexperienced sponsors, greedy promoters. Lifecare is not the only attractive concept ever to be so marred, of course. The same thing happened with retirement communities and nursing homes, which survived. So will lifecare. But there will probably be more boulders in the elysian fields before that happens. ■

These are exciting times for drug researchers. More new wonders are in the works than ever before. That doesn't mean easy riches for investors.

Here's what's hot

By Christine E. Miles

ONE OF WALL STREET'S favorite guessing games centers on drug companies: Who will come up with the next blockbuster? The contenders are many. Right now each of 13 drugs among all those in development could rake in annual sales of \$200 million within the next few years, enough to improve their makers' earnings (*see table*).

"I've been in drug research for over 20 years," says Dr. Robert Hodges, Warner-Lambert's vice president for medical affairs, "and I've never seen a greater feeling of anticipation." Merck's head of research, Dr. Roy Vagelos, agrees. "The competition is fantastic," he says, "but it's very stimulating."

It's not so clear that big money can be made easily in drug company stocks. The stock market, for one thing, may already have discounted future increases in drug company earnings. That could bewilder naive investors when their holdings decline in value on good news. Also, none of the new drugs near approval seems likely to become as extraordinarily successful as Tagamet or have the commercial potential of Capoten. "It's hard to have many of those," says Bob Holland, a spokesman for SmithKline Beckman, maker of Tagamet. And then, as always, there's the Food & Drug Administration. Its decisions could limit or deny markets for some promising new drugs. That makes for a lot of uncertainty, and hence risk, in the business.

Consider American Home Products and Upjohn, for example. Just this month, the FDA's Arthritis Advisory Committee will review applications from both companies to market new over-the-counter drugs that relieve arthritis pain. The patent for Upjohn's dominant prescription anti-arthritic, Motrin, expires in 1985. That will leave the lucrative anti-arthritic market wide open, and both Upjohn and American Home could exploit it with a lower-dosage, nonprescription drug containing ibuprofen, Motrin's active ingredient. Yet if the FDA also permits the drugmakers to recommend the drugs in sufficient frequency to deal with severe arthritis, the competition changes. In the "high frequen-

cy" market, American Home Products' entry, Advil, might suffer. "It will be going up against the safety record and reputation of the Motrin name," says Frederic Greenberg, drug analyst for Goldman, Sachs.

If, on the other hand, the new drugs get limited to the small-dose, nonprescription market, American Home's strength in the consumer market could discourage Upjohn from trying to compete. Meanwhile, to complicate the competitive situation further, others are already nibbling at the minor-pain market with such drugs as Panadol and Ecotrin.

In the market for antidiabetic drugs, with 20 million patients, of whom 5 million yearly exhibit side effects associated with the disease, Pfizer and AHP are squaring off. That market is actually growing, by about 800,000 new diabetes patients a year in the U.S. Worldwide, the potential market for the drugs is estimated at \$1.5 billion. "It doesn't take a marketing genius to see these could be major products," says Arnold Snider, drug analyst at Kidder, Peabody.



Great expectations

With companies pouring as much as \$300 million apiece a year into R&D, more people are playing the earnings projection game. Here are expected gains over the next five years, ranked by sales potential.

Company	Sales potential (millions)	New products	EPS impact	% EPS growth
Merck	\$1,460	27	\$3.94	70%
Pfizer	1,270	18	2.92	69
SmithKline Beckman	920	22	2.48	45
American Home Products	780	38	0.86	24
Johnson & Johnson	740	26	0.74	30
Eli Lilly	740	19	1.55	29
Upjohn	700	23	4.69	112
Warner-Lambert	600	22	1.08	53
Bristol-Myers	590	23	1.36	26
Squibb	520	7	1.87	62
Syntex	450	20	3.24	80
Schering-Plough	400	20	1.48	44
GD Searle	390	19	1.72	62
Sterling	320	14	0.67	31
Marion Labs	280	8	4.54	384
AH Robbins	270	14	1.81	91

Source: David Saks, with A.G. Becker

Pfizer, at the moment, appears to have an edge with its Sorbinil. "It's early, but we hope we have a drug that will slow down or even reverse complications associated with diabetes," says Pfizer President Gerald Laubach. "Although the clinical investment has been massive, we are prepared to up the ante because all the science says it should work." In the FDA approval process, AHP lags a bit behind Pfizer. But neither drug is likely to appear on the market before 1986.

Expected breakthroughs in disease prevention make up the glamour end of drug investing. Yet solid profit potential exists in many new drugs that are merely "new and improved" versions of older products. Among these, and the truly new entries,

here are the ones to watch:

Buspar: Bristol-Myers filed for approval of this tranquilizer in 1982. It's billed as nonaddictive and nonreactive with alcohol. Forecasts put sales around \$100 million as early as 1987.

Etoposide: Dr. Stephen Carter, a cancer researcher for Bristol-Myers, calls this the "most commercially important cancer drug" to appear in five years. It complements Platinol, B-M's bestselling chemotherapy drug. Anti-cancer agents should ring up \$650 million in yearly sales by 1986.

Imipenen: A superantibiotic developed by Merck. In animals, at least, versions of the new antibiotic work 10 to 30 times more actively than most conventional antibiotics against serious infections.

Feldene: Analysts say sales of this arthritis drug could surpass \$450 million by 1985. Feldene and Sorbinil point up Pfizer's improved productivity from the over \$200 million a year it spends on R&D.

Monocid: SmithKline's new antibiotic requires once-daily dosage and can be injected at home by patients. Dr. Thomas Davis, the company's vice president and medical director, says that means "savings to hospitals and patients will be tremendous."

Ridaura: Also from SmithKline comes an arthritis drug made from gold. It could become the most significant drug to appear this year, since its safety record is outstanding. In clinical trials around the world, it stopped the disease from progressing in some patients, and had fewer side effects than other gold-based drugs.

Azactam: Another superantibiotic, Azactam should fetch \$200 million a year for Squibb by the late 1980s. Most of Squibb's growth, though, will depend on expanding approved uses for its two big heart drugs, Capoten and Corgard.

Milrinone: Sterling's heart drug Inocor labors under FDA scrutiny. Milrinone, a derivative of Inocor, is more potent, but it may not cause Inocor's side effects. Investors should hope that's the case. Says David Saks, an A.G. Becker analyst: "There is little else in Sterling's pipeline to make the company's prospects more dynamic."

Lopid: It's a heart drug from Warner-Lambert that, in preliminary trials, appeared to reduce attacks in heart patients by 70%. Clinical trials in Helsinki should end next year.

Pramiracetam: A sleeper, this is Warner-Lambert's entry in geriatrics. The drug slows down the process of senility, to the benefit of memory and learning ability. Because of population aging, such drugs are hot. ■

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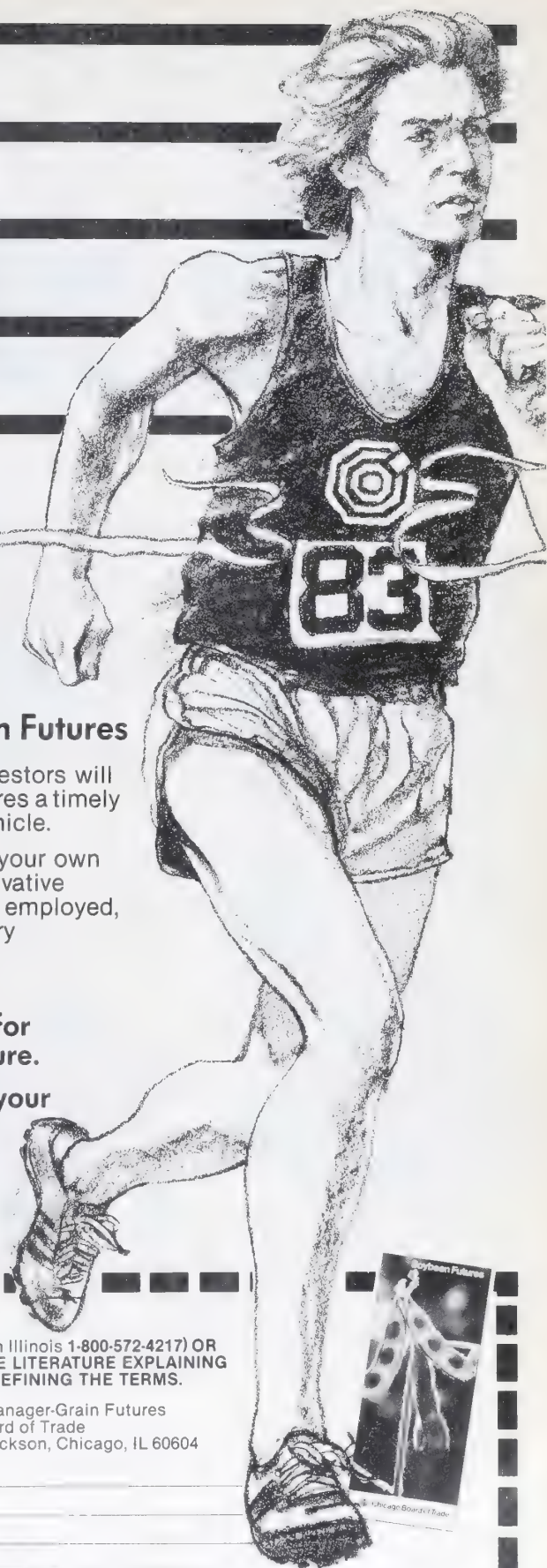
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These days some chief executives spend as much time in the plant as in the boardroom. That can be smart—or foolish.

Where's the boss? Taking a walk

By John A. Byrne

VISITORS TO Apple Computer's headquarters are likely to wonder why many of the company's employees are wearing large badges labeled WAM. Code name for a new computer? Hardly. The initials stand for Walk Around Management and reflect Chairman Steven Jobs' effort to preserve the entrepreneurial atmosphere that contributed to Apple's success.

With 4,500 employees on his payroll, Jobs no longer knows everyone on a first-name basis. That's why Jobs makes it a point to wander around, asking individuals about their work. "It's easy for technical companies to get hung up on technology and forget that people make things happen," explains Jay Elliot, the company's director of human resources.

There's nothing new about this. IBM's Tom Watson Jr. and Hewlett-Packard's William Hewlett are legendary for walking plant floors. Edward Carlson, the retired chairman of United Air Lines and another proponent of being seen, calls the approach "visible management." H-P terms it Management By Wandering Around.

With today's emphasis on entrepreneurial skills and Japanese-style motivation, walk-around managers are more common than ever. Obviously, pressing the flesh with lower-level staffers can improve morale. Many floorwalkers also feel the practice prevents the growth of burdensome layers of bureaucracy.

But there may be a more important

reason for breaking the conventional chain of command. "Management faces lots of problems if executives don't talk to and listen to employees," says Jack Reichert, chief executive of Brunswick Corp. "You learn a lot more by getting out than you ever do by looking at numbers in your office."

Reichert, who recently broke off a tour of three Florida plants to play volleyball with employees, recalls a meeting at a Wisconsin plant where an assembly worker complained that it was too cold in the factory to do her job. A vice president of manufacturing pooh-poohed the remark. Then Reichert showed up for an unannounced plant tour with the execu-



"... and put a new dyzoid on the frammie, and the john seats need tightening ... and the canteen truck stopped bringing morning croissants for our cappuccino, and our softball team needs uniforms and scorecards, and ..."

tive in charge. "We got to the area near a shipping dock where it was so cold you needed gloves," he recalls. "I said, 'Fix this right now.' It cost us a couple of thousand dollars. But all of a sudden productivity went up, and I was believable."

Similarly, Motorola Chairman Robert Galvin often sets aside a day or a series of days outside of corporate headquarters to do little more than chat with employees. "The anecdotes range all the way from being tipped off to a possible injustice to one individual to a sense that we may not have been adequately managing the allocation of our resources," says Galvin.

Other executives believe it is so important to get out into the field that they do so on a scheduled basis. Greyhound Chairman John Teets tries to spend at least one day each week in the field. Sam Walton, Wal-Mart's founder and chairman, aims to visit up to a dozen stores weekly.

Stuart Buchalter, CEO at California-based Standard Brands Paint, takes this a step further. When he considers an acquisition, he asks managers below the executive level to look at the company he is about to buy. "Before we acquired a 22-store chain last year," he explains, "I had store managers and supervisors climb all over it. Many of their suggestions were implemented immediately, and it made the deal more of a 'we're doing it' than a 'they're doing it' proposition."

Some experts even think that chief executives with high down-the-ranks visibility avoid big surprises that may cause financial crises. Robert Waterman, a McKinsey & Co. consultant, likens the process to child rearing. "When you don't pay attention to your

kids, they'll do outrageous things they know they ought to be punished for," he says. "Being punished is actually more satisfying than not getting any attention. What's more, if you stay up there in the ivory tower, it's too easy for your senior executives to reinforce your own ideas."

Walking around, like any good idea, can be carried to extremes. Continually breaking the command chain undermines lower-level managers, and no chief executive can be effective if he bogs down in detail. Building morale and getting grass-roots information can be useful management tools. But they are only a small part of being

the boss. At Apple Computer, for example, Jobs may continue to wander about. But you know that the company isn't paying President John Sculley, recently lured from PepsiCo with a \$1 million sign-up bonus, just to chitchat with employees. ■

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What do real estate and telecommunications have in common? Ask shopping center magnate Francesco Galesi.

Other people's money

By Carol E. Curtis

FRANCESCO GALESİ dwells in a luxurious Fifth Avenue duplex across from the Metropolitan Museum of Art. He shares it with his beautiful, blonde and pregnant girl friend, Marina. Weekends? Galesi can choose between his 220-acre horse farm or his 400-acre peninsula, both in Southampton, N.Y., or his 1,500-

acre plantation in Jamaica.

At 52, Galesi has the looks and charm of a movie star. To make the picture complete he is rich, extravagantly rich, to the tune of perhaps \$200 million. In all, an ideal profile for *People* magazine, and yet, surprisingly, he has received almost no attention from the national media. Why not? Perhaps because he finances his glittering life from the most prosaic of

businesses—shopping centers and industrial parks located in the Northeast. Galesi, a native of Montclair, N.J., was graduated from Princeton in 1953 with an A.B. in history. Not for him a salaried job, a slow climb up the corporate bureaucracy. Galesi would live by his wits. His father, an Italian immigrant, had been a real estate broker, so Galesi tried his hand at land deals. His first target was the city dump in Binghamton, N.Y. That dump, besides being infested with rats and gulls, was two minutes away from downtown.

He persuaded the city to sell it to him for \$150,000, which he borrowed, then got long-term contracts from department stores to take space. On the strength of these contracts, Galesi talked an insurance company into financing the deal.

"It was wonderful until all hell broke loose with the merchants," Galesi says. Fearful of the competition his shopping center would bring, small local stores ganged up and put pressure on the city not to let him go ahead with the center.

A less determined promoter might have backed away, but Galesi, with a clear sense of how easy it is to manip-



Francesco Galesi strolls with girl friend Marina on his 400-acre Southampton peninsula
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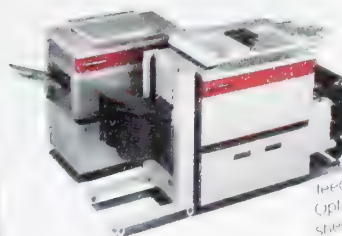


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Profiles

ulate the press, persuaded the local media to give him a sympathetic airing as it covered the city council's debate on the issue. "Lo, there was a groundswell!" he exclaims. After four months he was granted the permit to build. He even claims that he was asked to run for Congress from the local district.

On that project alone, Galesi says, he netted \$4 million. He went on to do 20 more like it, before switching to industrial parks.

They proved even more lucrative. In Albany Galesi scored the decisive coup that put him in the real big time. For \$4 million in mostly borrowed money he

United Satellite Communications Inc., which aims to operate the world's first mass-market satellite broadcast system broadcasting directly to homes; and Argo Communications Corp., a satellite-based long-distance telephone company. Galesi: "I have put aside everything and am giving this my full attention."

Galesi's "full attention" has scarcely been welcomed in the telecommunications industry. Comsat has already let Galesi know what it thinks of United Satellite's plan. Comsat claimed in the press that the receiving dishes Galesi wants to put on rooftops pose a threat to safety because a strong wind could tear the large objects loose and send them flying. It claims that its own system is safer

Regardless of what Comsat thinks, Galesi's persuasive powers have already given him a foothold: Prudential Insurance Co. has agreed to back him with \$45 million. Galesi claims this is the largest investment ever made by a private company in a non-real-estate startup venture. With this money, Galesi hopes to beat Comsat's Satellite Television Corp. to market with direct broadcasting by leasing channels on relatively cheap medium-powered satellites, including the one Sally Ride recently helped kick into orbit from the space shuttle. Comsat, by contrast, plans to put its own high-powered satellites into space, a much more costly and time-consuming method, Galesi says, because it uses technology so new that such high-powered commercial satellites have yet to be built.

Is Comsat worried? It has pushed up its direct broadcasting debut from 1986 to 1984, when, significantly, it has options to use medium-powered satellites on a limited basis. Galesi says Comsat has also held merger talks with United Satellite, but he wants nothing to do with them. Comsat says it isn't interested in a deal with United Satellite.

Galesi's telephone company, Argo, is aiming at the same long-distance business customers as Satellite Business Systems, a joint venture of Comsat, IBM and Aetna Life & Casualty. It, too, has impressive backing: The largest partner is Centel, the nation's fifth-biggest independent phone company.

He will probably take Argo public sometime in the next year.

It's not hard to see why the booming telecommunications industry appeals to a glib realty man like Galesi. At this stage, the new industry offers a wonderful chance to work with Other People's Money. Galesi has put up less than \$3 million of his own money for about 25% of both telecommunications ventures. Galesi puts it more romantically: "Telecommunications is my inspiration," he says. "It is where the imagination and childish fantasies merge."

It also may be one of the few areas in which you can make as much money in the Eighties as you could with real estate in the Seventies. Or so he hopes. ■



Galesi on his horse farm

The fastest ride is when others pay the way.

bought 7 million square feet of empty, surplus warehouse space that had been an old government depot and contained 50 miles of private road. Then he sold space for distribution facilities to 50 blue chip companies, for a profit, he says, of \$80 million.

Galesi uses his good looks and strong personality to excellent avail. Without coming on strong, he conveys warmth even when he is selling something. After lunching with him several times, a reporter gets the feeling that nothing could be easier than closing a \$4 million real estate deal.

And now Galesi, turning his back on the business that made him rich, is about to take the plunge into a business as fashionable and stylish as he is. He has started two new companies:

because, using more technologically advanced satellites, it can get by with far smaller rooftop dishes.

Galesi makes his opposition to Comsat sound like a crusade for the public interest and for the American way; he is nothing if not articulate.

"It's appalling," Galesi protests, "when their real objection is that we can do exactly what Comsat is doing for one-fourth the cost." Comsat says its system, relying on small receiving dishes of a manageable size, will win over consumers and retailers alike. Galesi's system would require weaker satellites but larger receiving dishes. "Whoever has the best marketing will win," says a Comsat spokeswoman. "The small dish is the key to the mass market."



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The Up & Comers

So far, Dick Streller's Hogan Systems has done everything the right way. But is the company too hot to stay hot?

Software's solid citizen

By Thomas O'Donnell

THE DARK WOOD WALLS, inch-thick carpets and cathedral-like quiet in Hogan Systems Inc.'s corporate offices in North Dallas make the company look more like a Big Eight accounting firm than the maker of computer software that it is. "The look is intentional," says President Richard Streller. "Our customers are the biggest banks and thrifts in the country. We can't afford to look like a bunch of guys working out of a garage in Silicon Valley."

The right image and the right product have made Hogan one of the hottest stocks in a hot market. Since Hogan went public in December at 21, its shares have shot up to the low 40s. Even at that, the analysts say, the shares are not overpriced. The reasoning: Earnings this year are expected to reach \$1.10 a share, for a price/earnings multiple of 39, while earnings are increasing by 43% a year. When the rate of earnings growth exceeds the multiple, the analysts say, you have an undervalued stock. Other computer software companies, by contrast, are selling at multiples that equal or exceed their growth rates. "Hogan has no real competition, its management is talented and its product is top-flight," says analyst Osman Eralp of Prudential-Bache. "What more could you ask for?"

An even lower price and multiple for starters. Despite analytical rules of thumb, runaway bull markets still tend toward overpricing. Nevertheless, analysts say, when the inevitable correction occurs, if it hasn't already, Hogan is bound to look good. "Its shares will fall less than the others," predicts Eralp.

Of one thing there is little doubt: Hogan's greatest long-term strength lies in its product, which is well matched to its market. Historically, big banks have built and maintained their own computer systems. But deregulation, permitting new computer-based services, and the rapid advance

of technology have overwhelmed bankers. Now they're looking outside for new systems and systems designers. And Hogan offers them an off-the-shelf system that can be easily adapted for individual bank requirements, sometimes at less than half what it would cost a bank to install a similar system on its own.

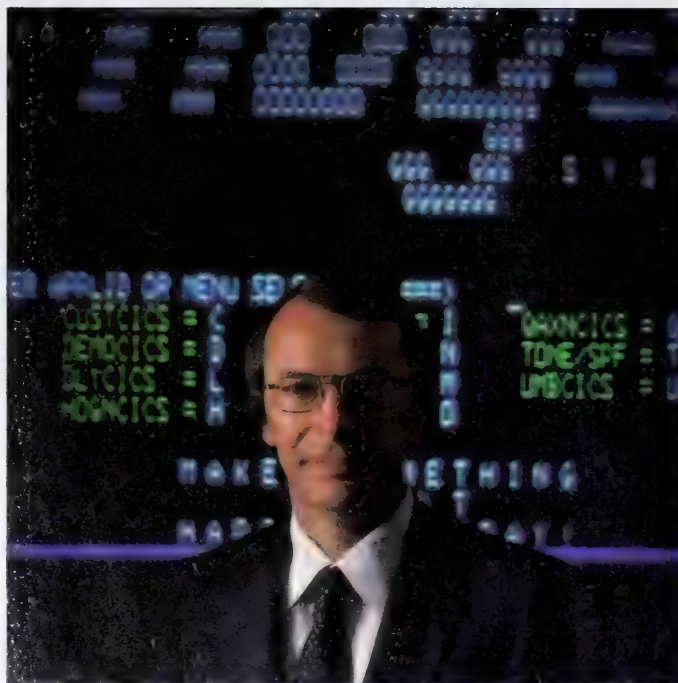
Hogan's lead in banking software has grown out of its Umbrella, essentially a facility that permits extensive changes in programming without much tinkering with hardware. Hogan's software includes a program for processing deposits, from simple cash transactions to the opening of individual retirement accounts; a loan program that handles both commercial and consumer as well as mortgage lending; and a program that runs electronic tellers. Yet another Hogan program searches the nooks and corners of bank records to compile a complete history of each customer's relationships with the bank. That helps bankers target prospects for new banking services.

About 85 banks and other financial institutions have bought some 220 Hogan systems, at a cost that usually ranges from \$100,000 to \$350,000 each. Hogan most wants to sell its complete five-part package, running around \$1.6 million. Only 25% of its customers have bought the whole package, but many others are testing one or two systems to help them decide whether to spring for the rest. Hogan is selling mainly to the institu-

tions that, with assets of \$750 million or more, can afford the package. That means about 400 potential customers in the U.S. Having already sold at least one system to almost one-fourth of its prospects, Hogan might appear to run the risk of saturating its market. But look again at the market. Deregulation is encouraging small and medium-size banks and thrifts to merge to form big ones, as well as to offer new services, so the market is actually growing.

Hogan is moving abroad, too. It already services the two largest Australian banks and has just opened a London office. In all, there are nearly 400 foreign financial institutions with \$750 million or more in assets.

Hogan has grown fast



Hogan Systems President Richard Streller

"Changing technology alone will keep us in business."

ever since Bernie Hogan, an ex-banker and born entrepreneur, founded it in 1977. Hogan got out of his company in mid-1981, just as it reported a profit. It lost \$558,000 in 1980, but in 1981 it finally posted earnings of \$601,000. "One of Bernie's most important contributions to Hogan Systems was the hiring of Dick Streller," an analyst says.

President and chief executive officer since early 1982, Streller is a quiet and intense detail man, an accountant who looks and acts like one, in contrast to the outgoing Hogan. Streller took over at just the right time to impress bankers with his solid-citizen, conservative demeanor. Yet the pressures of managing fast growth are taking their toll. "I have a nervous stomach," Streller says, as he chain-smokes filter cigarettes, "and I don't like doing business over meals."

Streller wasn't always bankerish. He says he left college in 1951, during the Korean War. He joined the Army and was given the choice of becoming a military policeman, a potato peeler or a programmer for the Army's early electronic data processing systems. "I didn't know what that job was, but I knew what the other two were, so I decided to become a programmer," he says. Streller's tour matured him. Afterward, he returned to college, married, pulled top grades and got a degree in accounting, specializing in computers.

Streller is consistently upbeat on Hogan's prospects. Yet risks remain. If the trend toward mergers of financial institutions sputters out, for example, Hogan's market loses some of its growth potential. And while Hogan is also betting that such "near banks" as Sears, Roebuck and Merrill Lynch eventually will become customers for its supersystem, nobody can be certain that they will. Streller dismisses the uncertainties. "Changing technology alone will keep us in business," he says. "And don't forget, we have no direct competition." Yet a serious potential competitor, Anacomp, Inc., in Indianapolis, is expected to be ready in a matter of weeks to deliver its own highly regarded banking system.

If Hogan does run into trouble, the company at least seems likely to react fast. No sooner did it miss a few sales last year because its five-man sales staff was overburdened than it expanded the staff, which now numbers 14. When its customer services operation began running up losses because representatives were spending time training new people, that operation was quickly expanded to 50

staffers from 35. Under Streller, Hogan has been aggressive as well as fast. The company is reinvesting more than 20% of its revenues in research and development each year—a real sign of management boldness for a company that earned just \$3.7 million on \$17.1 million in total revenue during fiscal 1983.

"Drawn and quartered"

IF I HAD LOOKED AT the Cellu-Craft situation more thoroughly, I don't know that I would have bought into it," says 70-year-old Selig Burrows reflectively.

That's putting it mildly. Little Cellu-Craft Inc., with sales of \$46 million, may sport a 30%-plus return on equity these days with virtually no debt and a per-share earnings growth rate of 23% in recent years, but it is nonetheless true that Burrows very nearly lost his shirt on that investment in the beginning. You might say that the little company, a maker of flexible packaging for the food and soft drink industries, had been milked by the prior owners.

"Milked?" Burrows repeats, an amused twinkle in his eye. "Drawn and quartered would be more like it. They told me they would lose about \$1.5 million on sales of \$20 million for fiscal 1972. The loss turned out to be \$5.5 million. They owed the banks \$6.5 million, including the \$4 million they'd borrowed to buy my little linen service company. Their accounts payable were so shaky they had trouble getting materials from their suppliers. It needed a lot of cleaning up."

So why did Burrows turn right around and invest \$150,000 in Cellu-Craft and take over as CEO? "Well, you see, I really just wanted a tax shelter for my linen service company," he replies. "I hadn't looked at it carefully enough to realize they were in a very, very bad way cashwise."

Now Selig Burrows, a lawyer who says he made most of his money in real estate, looks far too prosperous to be taken so easily. That mint-condition Thirties Bentley with the Florida plates parked at the Cellu-Craft factory gate in New Hyde Park, N.Y. is his—the one parked next to the company-owned limousine. Burrows is immaculately tailored, with a touch

In a business where high turnover is endemic, Hogan has kept its best employees. "We've lost no one we didn't want to lose," Streller says. So far, it seems, Hogan has done all the right things and in the right way. That doesn't guarantee long-term success. But if the future consists of probabilities, it sure gives you an edge.

of flair, as one would expect of the brother of Abe Burrows, coauthor of such Broadway hits as *Guys and Dolls* and *How to Succeed in Business Without Really Trying*, and he speaks proudly of his homes in Palm Beach and just outside Locust Valley, N.Y., his "very substantial collection of modern art," his "very important collection of antique delft" and his charities.

But successful as he may have been



Burrows (right) and Westerman of Cellu-Craft
"I really just wanted a tax shelter."

in some business ventures, Burrows admits he outfoxed himself when he bought control of Cellu-Craft. His new "tax shelter" was bankrupt in all but name. Or, as he puts it: "This company was like a sickly, dying child who was really on the verge of passing out of the picture." Indeed, for the next three years the old Cellu-Craft operations showed a negative net worth. It was an embarrassing situation that became downright annoying when he drove into the parking lot one day and found a beautiful new Mercedes there. "I asked the president whose car it was, and he told me he used it himself, but that it be-

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longed to the company. 'You told me to get transportation,' he said. On top of that, I found this big goddamn boat parked outside one day that he said was just there temporarily. I mean everything about this guy was wrong. So I told him to meet me at 7 a.m. in the Edwardian Room of the Plaza one day, and in between my grapefruit and my cottage cheese I asked for his resignation." That was the sixth president Cellu-Craft had had in just 18 months.

For the next five years Burrows fought to keep the company alive. He bought time from lending banks on the strength of the linen service company's steady cash flow. "It wasn't the money, it was the principle of the thing," says Burrows. "I have never been involved in a business failure of any kind, and I wasn't about to start." A year later an old hand named Bill Westerman returned to the company after a stint with General Tire. Westerman's help as operations chief proved invaluable.

Together Burrows and Westerman thrashed out a business strategy for Cellu-Craft. The company "had something like 600 customers," Burrows says, "most of whom were too small" to produce profit for Cellu-Craft. Westerman adds that Cellu-Craft was trying to become "an American Can, a diversified packaging company, through acquisitions. The concept was excellent, but the execution was lacking."

"Because after they acquired these little companies, the old management just left," Burrows puts in.

"Right, so we concentrated on our strengths, the areas where we have good market penetration and where the product has the most value added, so we're not being undercut by smaller competitors all the time," Westerman goes on. "Those markets are basically cheese, snack and confectionery packaging and labels for plastic soft-drink bottles, where we are the market leader."

That meant getting rid of things like a bag company. "I don't want to be in that business," says Burrows in somewhat theatrical and imperious tones. "Anybody with a garage and a few bucks to buy a machine can get into it."

Burrows and Westerman have concentrated their sales effort on the 50 largest U.S. food companies, which they believe will control over 90% of food sales in the U.S. by 1990. "We won't take a customer unless he's got the potential of giving us at least \$100,000 worth of business a year," says Westerman. "It's been our expe-

rience that the larger companies don't buy on price alone, which smaller companies tend to do."

As small a factor as it is in the \$5 billion flexible packaging industry, Cellu-Craft has to walk a fine line between the high-volume commodity business, where it would be murdered by the greater economies of scale of the big boys, and the job-shop, low-volume, easy-to-manufacture end of the business, where it can be undercut, too. That means focusing on relatively hard to make products such as labels for plastic soft-drink bottles. Such labels are laminates of several materials with complex graphics.

So how does Cellu-Craft manage to achieve a better than 30% return on equity with no debt and a 23% per share earnings growth rate in so competitive, and generally not very profitable, a business? Simple. Burrows spun off the narrow-margined linen supply business that had kept the company alive and bought in 26% of Cellu-Craft's stock, shrinking equity by \$4 million. Rising earnings on a far smaller chunk of equity equals sharp-

ly improved return on equity figures. "The profitability is not that great in this business. The industry return on sales, pretax, is about 5½%, and ours is about 8½%," Burrows says. Westerman adds, "Ours is better than most because we watch our overhead. Our sales per employee are about double the industry average, for example. We keep our plants at the size where one man can run them. And the growth comes from sticking with the larger customers and tying our wagon to their star."

"This little company very easily could increase its volume another 40% to 50% without adding very much to our present facilities either personnel-wise or equipment-wise," Burrows says.

Today Selig Burrows and his family own a stake in Cellu-Craft that is worth about \$16 million. Was it worth 11 years of hard labor? "Oh, I probably would have been better off if I'd just pocketed the \$4 million and gone about my business," Burrows says. "But I wouldn't have had as much fun."—Geoffrey Smith

If at first you don't succeed . . .

Talk about specialization: Symbol Technologies, Inc. on New York's Long Island deals solely in the business of bar codes. Those are the black lines of varying widths on consumer products that optical scanners read to determine price and adjust inventory. Given the growth in bar coding, it would seem a great business to be in. Not for Symbol, it wasn't. The company started ten years ago as a consulting firm. It put its bet on a machine that permits manufacturers of bar-coded products to test the codes, to ensure that they scan before being printed on packages. It was a tiny market and unprofitable. Symbol also tried making stationary scanners, but the market was dominated by relative giants, such as Spectra-Physics.

In the past five years Symbol dropped \$3.5 million, and Jerome Swartz, the 43-year-old electrical engineer who cofounded the firm, had to make a decision: to return to consulting—as his partner wished—or try to develop a profitable new product, a riskier course. Swartz decided to take a risk. His partner was bought out.

"The bar-code systems are wonderful," he says. "But there is one problem. They are stationary. You have to bring the product to the scanner. The scanners themselves also are big, bulky things. It's fine if you have a lot of room, as in a supermarket, but it

can't be used at a 7-Eleven or in most department stores."

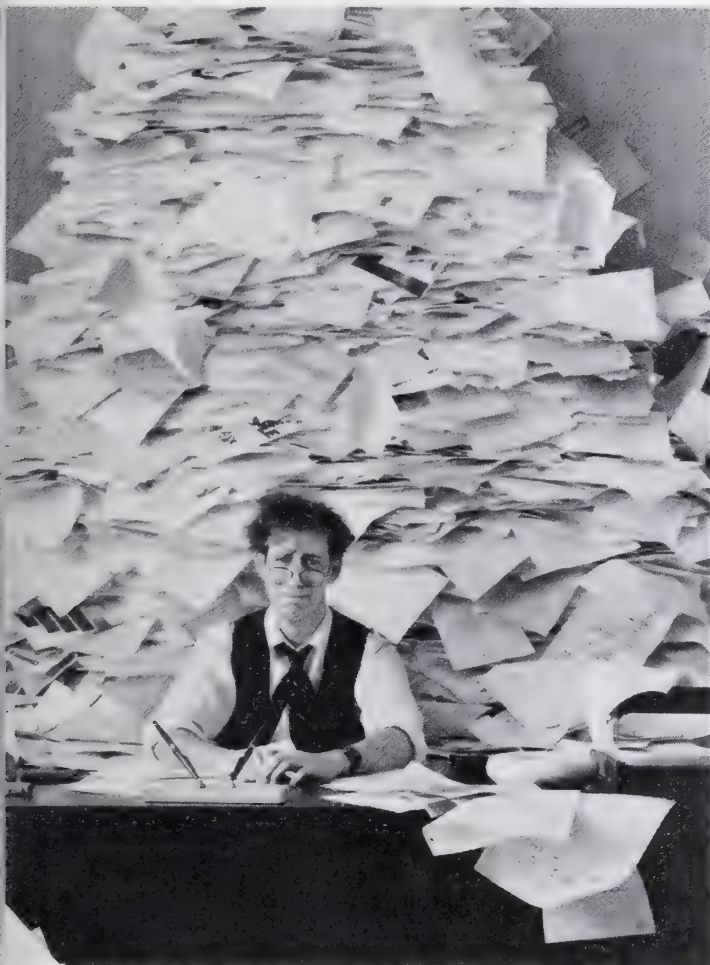
So Swartz set about making a 1-pound portable scanner that can travel to the product. "It is for use in inventory in the broadest sense, not only in supermarkets but department and specialty stores," Swartz says. "Our market is 10 times larger than supermarkets." The device has uses outside retailing. For example, it is being tested by Detroit automakers. Not only can the device ensure that a No. 4 screw goes into a No. 4 hole, but by keeping a running inventory it limits the number of screws that need to be warehoused.

"This one will do it for us," says Swartz, holding the portable scanner like a proud father holds a baby. "It has glamour and sex appeal. It will create a whole new ball game."

The customers aren't arguing, either. Symbol had a backlog of orders worth \$4.8 million when its fiscal year started July 1, up 66% from fiscal 1982 sales. Although Swartz says someone might be able to design a competitive scanner without infringing on his patents, he also says, "I figure we have about 12 months' lead time, and we are already working on the next generation. Competition will be a problem, but it is one we are very happy to have, given our past." Score another victory for the try-again school.—Paul B. Brown

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1983 Annual Mutual Fund Survey

The time has come, so funds men say, to talk of many things . . . of equities and money funds, turning paupers into kings.

Through the looking glass darkly

By Barbara Rudolph

THERE IS NOTHING SPECIAL about Founders Special Fund. Since Founders was launched in 1969 with only a few million dollars, the number of shareholders has grown slowly but steadily. Until about a year ago there were 7,700 investors and total assets of \$30 million. The Denver-based no-load fund hit neither the limelight nor the big time, despite the fact that Founders' net asset value growth over the past 14 years averaged an excellent 15%.

Last August all that changed. Nearly every day now there is a black canvas bag in a corner of the fund's offices, full of uncashed checks from would-be shareholders. "We used to get maybe 10 checks a day," says Founders President Erik Borgen. "Now it's 60, 70. . . . Amazing."

As of early this month, Founders Special's assets stood at \$95 million.

Founders Special is not unusual. Mutual funds are back in style. After nearly a decade of net redemptions, sales for the first six months of 1983 hit \$22.4 billion, four times the previous record. American Express is paying \$1 billion to buy IDS, far from

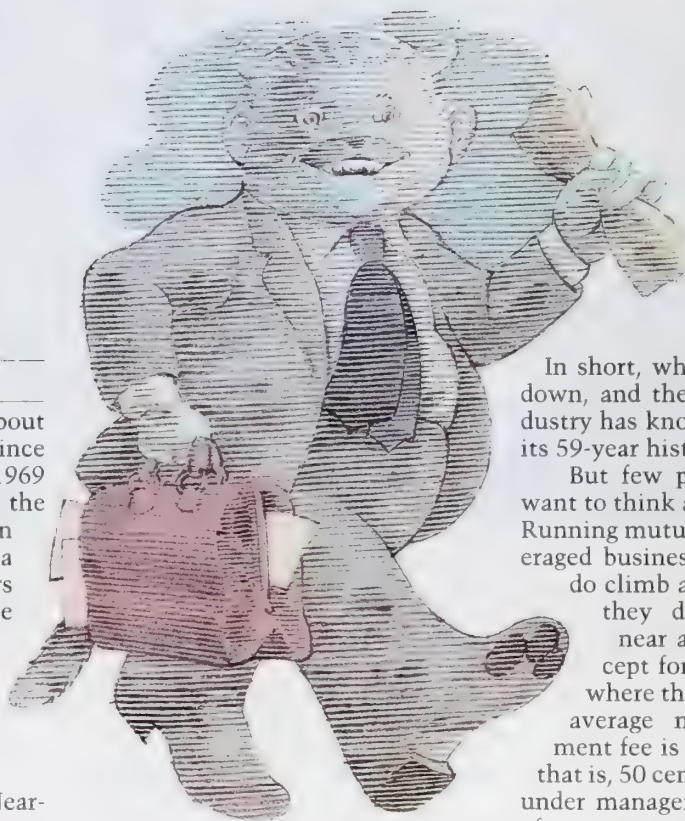
an industry leader. And cocktail party chatter is as apt to be about soaring net asset values as about tax shelters or real estate prices.

There's a dark side to the industry's new popularity, however. Individuals traditionally used mutual funds as file-and-forget investments, with a view to college educations and retirement. Today's new shareholders have far shorter horizons and far higher expectations. They have been attracted, moreover, by a raging bull market that may well have run ahead of the country's economic prospects.

In short, what goes up must come down, and the U.S. mutual fund industry has known plenty of downs in its 59-year history.

But few people in the industry want to think about that. No wonder. Running mutual funds is a highly leveraged business, and while expenses do climb as a fund grows in size, they don't climb anywhere near as fast as revenues. Except for money market funds, where the charges are lower, the average mutual fund management fee is about 0.5% of assets—that is, 50 cents a year for every \$100 under management. Since the assets of non-money-market funds recently topped the \$100 billion mark, that means that the public is paying an astounding \$500 million a year for mutual fund management services—and this doesn't count sales charges.

After all the lean years many mutual fund executives were taken by surprise by this new prosperity. Thus the industry's shareholder services often leave much to be desired. "To a large extent the industry is working with 1960s software," says one fund manager. Unfortunately, shareholder expectations are higher than ever. In an age of automated banking and cash



management accounts, people expect a lot from their mutual funds. "Even with terrific performance, screw up someone's account and you've lost him," says William Hostler, vice president of individual marketing at Vanguard.

A more nagging worry is the question of size. There has never been a definitive correlation between how much money is in a fund and how

well it performs. Everyone agrees, though, that it requires more skill to set investment policy at a large fund than at a small one. This makes today's environment unusually difficult. That's because investors have been especially hungry for small growth funds. Janus, for example, jumped from \$40 million to more than \$240 million over the past year, and Fidelity Select Technology from

\$2.4 million to \$675 million.

Have these highflyers, and others like them, outgrown the ability of their managers? "Before, a couple of good stocks had an impact on my portfolio. Now, they don't register," admits Fidelity Technology's Michael Kassen. "At a certain size, you're like a whale in a goldfish bowl," adds Robert Gintel. Gintel is doing a praiseworthy thing: He promises to close

The honor roll—why the Cheshire cat smiles

One sign of the mutual fund industry's new prosperity: This year's *FORBES* honor roll is longer than it has been in ten years. To qualify, each fund had to do well in both up and down markets. That required at least a B rating and put such a fund in the top 50% of the industry during good times and the top 25% when the going was rough.

Nearly half of the 27 honorees are new to the list. American General, the top-performing fund family (see box, p. 78), had two new funds on the list, General Venture and Convertible Securities funds. Vanguard's Explorer Fund, which opened in 1967 as one of the first mutuals to invest primarily in high-technology stocks, is also a first-timer.

But other names are almost regulars. Templeton Growth Fund, with a ten-year tenure, has been on the list longest. Mutual Shares, which invests largely in bankrupt companies and other special situations, is an eight-year honor roll veteran.

On the other hand, several familiar names are missing. These include: Charter, Petroleum & Resources, Putnam Voyager, Sigma Ventures and Twentieth Century Growth.

Some of these changes reflect the fact that we have calculated ratings this year on the basis of a new time frame. We measured funds over three up and three down cycles, but this year we replaced the early Seventies bull market with the latest bull market, the one that began last August. Charter Fund, for example, had exceptional performance during its early years but did relatively less well in the recent rally. So it dropped from the honor roll. Thus have we tried to weight the ratings toward current performance and not toward ancient history.

There is also an element of subjectivity in our honor roll selection. *FORBES* rates funds relative to

each other, not on any absolute scale. So, after a bull market like this one, we have raised our minimum standards for bear market performance. Why? Because we think that defensive playing will come into its own again, what with the market up 50% and more in less than a year. That's why we honor funds not only on the basis of how fast they can sprint but also on how well they can hold the pace over long periods of time and under difficult conditions.—B.R.

Welcome to the tea party

No fund is guaranteed to weather all market storms, but the 27 funds on this year's honor roll come close. They have all been consistent performers in both up and down markets.

Name (years on honor roll)	Type	Market ratings		Annual return	Assets (millions)
		UP	DOWN		
AMCAP (5)	load	B	B	14.9%	\$907.3
American General Comstock (3)	load	B	A	20.4	393.1
Amer Gen Convertible Securities*	closed end	A+	B	16.4	77.9
American General Pace (2)	load	B	B	17.6	1,072.0
American General Venture	load	B	B	17.5	359.1
American National Growth	load	B	B	14.7	103.3
ASA Limited (5)	closed end	A	A	24.4	642.9
Castle Convertible*	closed end	A	B	16.3	38.0
Explorer	no load	A	B	15.1	269.8
Fidelity Destiny	load	A	B	18.8	516.7
Fidelity Magellan (2)	load	A+	B	22.2	1,421.4
Growth Fund of America	load	B	A	15.4	407.6
Highland Capital	closed end	B	A	15.4	15.9
International Investors (4)	load	A	A	24.9	697.5
Janus (2)	no load	B	A	16.3	243.2
Mutual Shares (8)	no load	B	B	21.0	215.3
Naess & Thomas Special	no load	B	B	16.0	46.3
Nicholas (2)	no load	B	B	10.8	160.7
Oppenheimer Equity Income	load	B	B	17.3	64.4
Over-the-counter Securities (2)	load	B	B	20.0	72.5
Pioneer II (2)	load	B	B	19.9	1,011.4
Research Capital	load	A+	A	12.3	111.4
Sherman, Dean	no load	B	A	12.9	5.1
Templeton Growth (10)	load	B	B	16.8	832.1
Tudor	no load	A	B	15.8	81.2
Twentieth Century Select (6)	no load	A+	B	24.7	506.0
Vance, Sanders Special (4)	load	B	B	12.9	138.6

*Balanced fund

Fund manager ratings—why the March Hare worries

Funds today often run in families. Instead of offering just one all-purpose fund, a manager provides a broad range. It's the Alfred Sloan approach. You don't want a Chevy? How about an Olds? A Caddie, then?

But let this table dispel any illusions: There is no ideal family of funds. So far as results are concerned, the individual fund is what counts, not the family name. No fund family, taken as a group, has a consistently good, never mind excellent, record in both up and down markets.

The data are for stock funds only, and we have included all major managers with three or more equity funds rated by FORBES. Note, too, that we didn't consider managers' bond funds or money market funds; it's equity performance only that we're measuring here.

Specifically, no fund family earned a B or better in both up markets and down markets. Consistency of performance is a worthwhile investment goal. A few individual funds achieve it. But no family even comes close.

Notice, too, the volatility of some fund families. Kemper, for example, posts an A+ in up markets and a D in down markets. And Stein Roe gets an A+ on the way up and a solid F on the way down.

What's the moral? The moral would seem to be that the big fund families are too marketing-oriented. They bring out different funds in response to what

the public seems to want. They are more likely to create new products when their marketing men sniff demand than when their stock pickers see opportunity. That may be why every management company with a family of funds has its share of clinkers.—B.R.

Off with their heads?

As these composite ratings indicate, no fund manager is a superior all-round performer. This shouldn't be a surprise. But it may be troubling news to those who like to switch assets within a particular fund family.

Name of fund manager	Number of funds rated	Performance in UP markets	Performance in DOWN markets
American General Capital Management	7	A-	C
Capital Research & Management	8	C	B-
Delaware Management Co	3	C	B-
Dreyfus Corp	3	B-	C
Eaton & Howard, Vance Sanders	7	C+	D
Fidelity Management & Research	7	C+	C
Investors Diversified Services Inc	5	B-	D
Kemper Financial Services	3	A+	D
Keystone Custodian Funds	5	C+	F
Massachusetts Financial Services	5	B	D-
National Securities	3	C+	D
NEL Equity Services Corp	4	B-	C+
Neuberger & Berman Management	4	B-	D+
Oppenheimer Asset Management Corp	7	A-	D
T Rowe Price Associates	3	B	F+
Putnam Funds	8	B	D
Safeco Securities	3	C+	C-
Scudder Stevens & Clark Funds	4	B-	D
Security Management	3	B-	D-
J&W Seligman & Co Marketing Inc	5	B-	D
Sigma Shares	4	B	D+
Stein Roe & Farnham Funds	3	A+	F
United Funds	5	C+	D
Value Line Securities	4	C+	B+
Wellington Management	8	C	D+

his \$90 million Gintel Fund to new investors when total assets hit \$150 million. But few managers are capable of exercising the kind of discipline that forces them to pass up fees today in the theoretical interest of better performance tomorrow.

As the market heats up, mutual funds also face the danger of too much buying and selling. "Portfolio managers can be like fish—they go after the moving lure. They say to themselves, 'Company X hasn't done anything this week, let's move to company Y,'" says George Stasen, portfolio manager of Medical Technology, a respected growth fund with a low, 8% annual turnover rate.

Another problem is the simple pleasure of being in the limelight. Managers who reach the top of performance rankings see their names and photographs in print. That can be a powerful drug. "Intellectually, I know this can't go on. But emotionally, it's different. You reach the top of the quarterly list, and it increases your desire to stay there," says one portfolio manager. In today's market, with value harder to find, that can lead to greater risk. "Stretching standards" is the way one manager describes it.

But how many managers are objective enough about themselves to recognize the difference between stretching and taking normal risks? The ego

is a great deceiver. A lot of managers think they will be able to get out at or near the top. "Managers are investing with one foot out the door," says Marshall Front, a partner in Stein Roe & Farnham, recalling 1974, when the exodus from stocks reached panic proportions and managers couldn't liquidate their portfolios without taking terrible beatings. The trouble is, fund managers, like everyone else, tend to run in packs and it's almost impossible for anyone to get out at the top. So, at Scudder Stevens & Clark's Capital Growth Fund, for example, manager Andrew Massie reports that he is now holding 15% cash "as a cushion"—more than Scudder held during the

1973-74 market decline. "I don't know when the market will turn, but I know we'll be in cash before our shareholders want us to," says Gordon Yale of Janus Fund.

That leads to the toughest question of all. Because of the industry's changing demographics, no one knows how today's shareholders will react to a market decline. Statistics here are murky, but managers agree that investors are younger than ever before. During the fourth quarter of last year, individuals under 35 accounted for 9% of new fund sales. By the first quarter of 1983 that figure had swelled to 27%, according to Market Facts, a Chicago-based research firm.

What does this mean? It means that a lot of new investors have never had that awful feeling in the pits of their stomach that comes from knowing their hard-earned capital is melting away and that a flight to liquidity could mean taking serious losses. When it happens, will they cut and run, or stand fast? Chances are they will cut and run. Redemptions could reach serious proportions, driving the market down even further.

But the inevitable panics aside, continued prosperity attracts competition, and everyone knows the banks covet the same money that mutual funds attract. After all, most trust departments have floors of money management professionals. New products packaged in a creative way could lure away fickle first-time fund shareholders—especially if fund performance doesn't meet their expectations. Straw in the wind: Some venturesome banks are already offering "private label" mutual funds.

In short, the industry's present prosperity isn't going to last forever; it never does. So what should the individual investor do? He or she should be careful and think before leaping. Since no bull market lasts forever, it probably makes sense to invest now in a fund that has proved its mettle in bear markets (see box, p. 77). What good does it do to double your money on the way up, only to give it all back, and then some, on the way down? And ponder the advice that mutual fund pioneer Paul Cabot gave FORBES years ago: "Investing is like a sailboat race. Sometimes you sail to the windward, sometimes wind to beam. . . . What counts is not how fast you went with the wind behind you, but where you are when it's all over."

Put it this way: The race almost never goes to the merely swift.

How to use the Forbes fund ratings

This bull market has made lots of ordinary, uninspired mutual fund managers look very good indeed. With the broad-based Wilshire index up more than 50% over the past 12 months, nearly everyone can boast about impressive one-year records. The tables on the following pages are designed to help make sense out of these sometimes misleading claims.

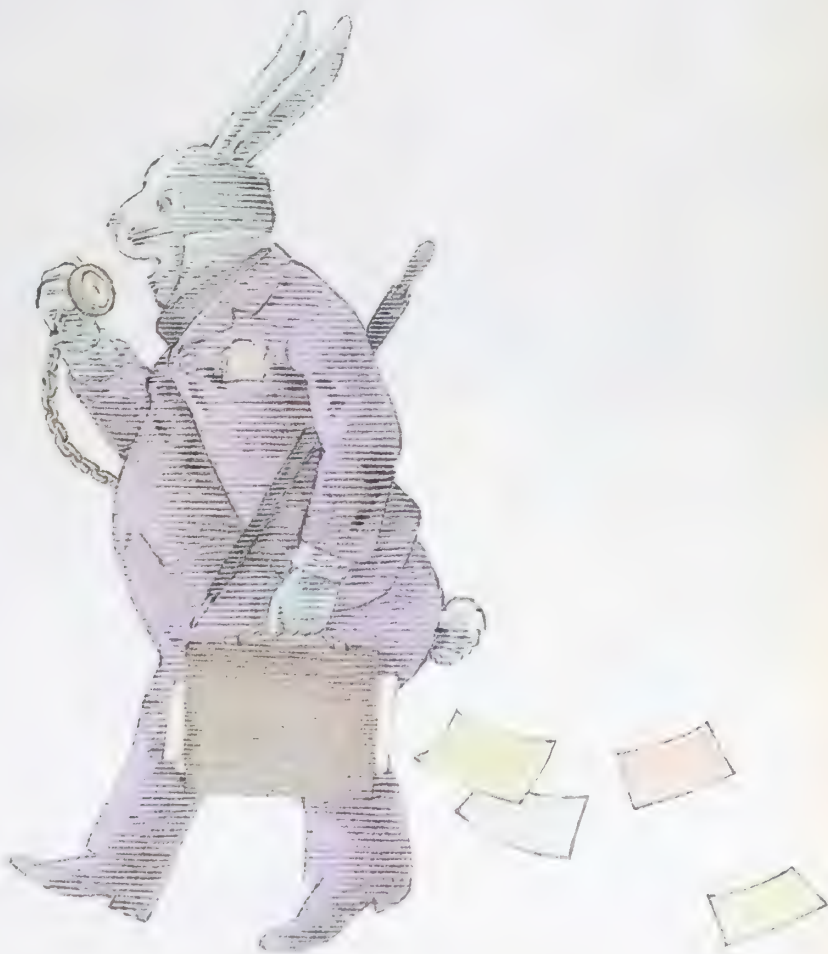
We rate the funds according to performance in both up and down markets. We regard this method as far more meaningful than simply looking at the scores to find out who scored biggest during a period when nearly everyone did well. For what good are spectacular gains when you can't hold on to them when the inevitable reaction sets in. We also take a long-term view of investing. This year's calculations are based on the three up and three down markets that occurred during the 10½-year period shown on the chart on page 80.

FORBES ranks funds relative to one another rather than on an absolute scale. To get a high rating, a fund

must perform consistently well in all three up or down periods. In up markets, the top 12.5% of all funds get an A+; the next 12.5% an A; the next 25%, a B; the next 25%, a C; and the bottom quartile, a D. In down markets, ratings range from A to F, with a similar distribution.

We tinker with our formula so that no fluke performance—good or bad—can have an undue influence on a fund's average performance. We also calculate separately for up and down markets. In essence, we give a fund the chance to escape some of the consequences of a one-time disaster, but we don't allow a brief stroke of good luck to sway us either.

In determining performance ratings and the latest 12 months' return from capital growth, capital gains distributions have been reinvested. But income dividends have not. All results are based on initial investments at net asset value and do not allow for sales charges. The average annual total return for 1973-83 reflects reinvestment of all distributions. Return for income



1983 Fund Ratings

dividends is based on June 30, 1983 net asset value and income payout for the preceding 12 months. Annual expenses include management fees and operating expenses as a percentage of average net assets.

Mutual fund shareholders should be enjoying fat bull market gains right now, and holding on to them ought to be a major concern. Peruse the figures on the following pages, however, and you will see that star performers in bear markets are few and far between. Only 15 out of a total of 463 stock and balanced funds earned an A for down markets. And plenty of those funds posted dismal scores for up periods. American Growth Fund, Fidelity's Puritan Fund, Founders' Income Fund and Value Line Income Fund, for example, earned Ds for up markets. These funds, in short, were good on the defense but terrible on the offense.

On the other hand, many bull market beauties were bear market bums. Consider Bull & Bear Capital Growth Fund, Fairfield Fund and the Oppenheimer A.I.M. Fund. Aggressive growth funds are almost certainly not going to do as well in a bear market as a conservative fund that sits with large chunks of cash, waiting for the averages to decline.

Sound complicated? It is. People

who buy on the simplistic basis of who had the hottest scores over the last year or less are asking for trouble. Pick a fund as carefully as you would a new car, say, or a new house.

In so picking, pay special attention to funds with great discrepancies between bull and bear market performance. These are volatile, high-risk investments. They can be good ways to play an economic turnaround, but they make little sense as long-term holdings. Eat well or sleep well, don't

try for both in the same fund.

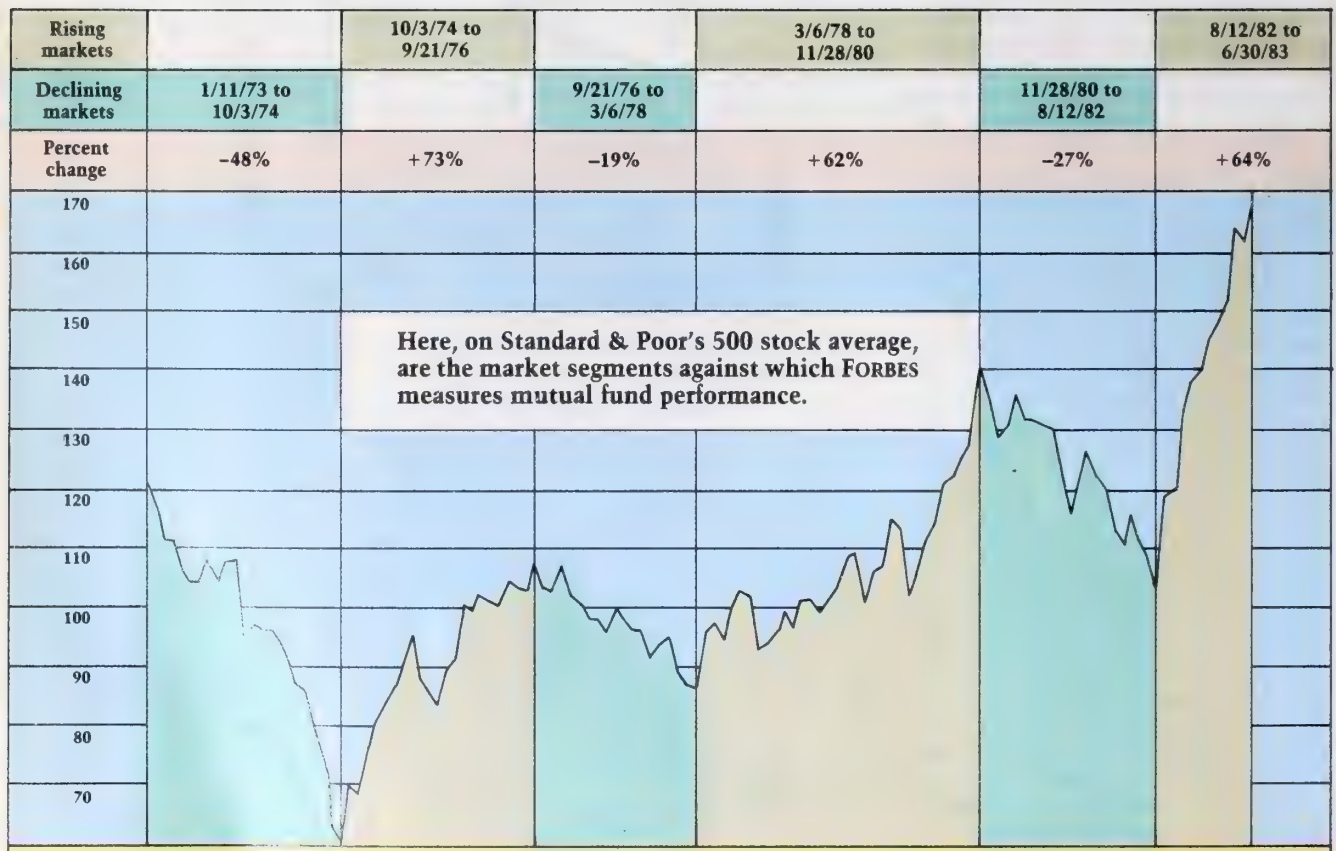
Only fools, of course, make file-and-forget investments. But if you are looking for something for an aged relative or a youngster, limit your selection to funds with above-average performance in both up and down markets. After the stock market surge of the past year, it probably makes sense now to err on the side of caution, giving bear market protection even greater weight than usual.

The FORBES rating system can analyze only the past. That's the weakness of all investment advice. But we feel strongly that our way of evaluating mutual funds makes more sense than the follow-the-crowd approach of looking only at shorter-term performance and ignoring general market conditions.

In the end, the fund you choose will reflect your own view of where the market is headed and, more important, the level of risk you are willing to accept. A fund that would satisfy your nervous Aunt Tilly would probably be one that earned an A in down markets and, perhaps, a B in up markets. Your well-heeled brother-in-law, on the other hand, might be comfortable with a B or C in down markets in order to exploit the A rating in an up period.—B.R.

Read before you dial

Obtaining a prospectus is the first step in evaluating any fund investment, and this year our ratings tables include telephone numbers to make that request easier. Most funds have toll-free 800 listings, but these may not work for calls from the state where a management company is based. In such situations, check directory assistance within your area code. Finally, whenever toll-free dialing isn't possible, reverse the charges. Most funds will gladly take collect calls from prospective shareholders.



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*This figure is based on changes in the Fund's net asset value per share since its inception on 3/2/64 with all income and capital gains distributions reinvested, and after adjusting for a maximum front-end sales charge of 8.5%, as shown in the prospectus and updated through 6/30/83. No adjustment has been made for taxes. Future results cannot be guaranteed or predicted.

1983 Fund Ratings

Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1973-83	Latest 12 months return from capital growth	return from income dividends				
			6/30/83 (millions)	% change '83 vs '82					
		Standard & Poor's 500 stock average	8.3%	53.4%	4.1%				
		FORBES stock fund composite	10.8%	63.3%	2.9%				
		FORBES balanced fund composite	8.8%	36.4%	7.3%				
		FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%				
Stock funds (load)			Group averages						
			10.6%	64.0%	2.9%				
C	C	Affiliated Fund (212-425-8720)	11.8%	44.2%	5.5%	\$2,023.8	41.5%	7.25%	\$0.36
C	D	Alpha Fund (800-241-1662)	8.6	92.7	1.9	23.4	90.2	5.00	1.50
B	B	AMCAP Fund (213-486-9200)	14.9	53.9	2.4	907.3	130.3	8.50	0.76
C	C	American Birthright Trust (800-327-4508)	11.6	63.6	none	177.1	54.9	8.50	1.09
B	A	American General Comstock Fund (713-522-1111)	20.4	58.3	3.8	393.1	156.3	8.50	0.72
A	F	American General Enterprise Fund (713-522-1111)	12.2	64.7	2.0	748.7	67.9	8.50	0.69
B	B	American General Pace Fund (713-522-1111)	17.6	60.6	3.2	1,072.0	726.5	8.50	0.71
B	B	American General Venture Fund (713-522-1111)	17.5	65.2	3.5	359.1	336.3	8.50	0.78
D	A	American Growth Fund (800-525-2406)	13.7	44.7	5.1	52.8	75.4	8.50	1.50
D	C	American Leaders Fund (800-245-5051)	8.0	44.6	5.2	47.3	22.2	6.50	1.45
D	B	American Mutual Fund (213-486-9200)	14.1	47.5	5.0	797.5	66.7	8.50	0.51
B	B	American National Growth Fund (409-766-6577)	14.7	87.8	1.7	103.3	97.5	8.50	0.76
•D	•C	American National Income Fund (409-766-6577)	—*	46.2	5.2	37.2	91.8	8.50	0.80
B	D	Axe-Houghton Stock Fund (800-431-1030)	11.7	118.2	0.1	203.3	93.8	8.50	0.88
B	F	BLC Growth Fund (515-247-5711)	8.7	64.1	2.5	19.0	62.4	8.50	1.01
D	H	BLC Income Fund (515-247-5711)	12.1	54.3	5.0	21.7	58.4	8.50	1.00
C	C	Bullock Fund (800-221-5757)	9.4	47.6	3.7	160.5	43.2	8.50	0.82
C	D	The Cardinal Fund (614-464-6811)	9.9	62.3	3.3	17.7	53.9	8.50	1.06
A	F	Centennial Growth Fund (303-770-2345)	9.1	108.9	1.0	30.0	75.4	8.50	1.33
C	F	Chemical Fund (800-221-5233)	6.5	57.2	2.4	1,273.8	43.0	8.50	0.59
B	F	CIGNA Growth Fund ¹ (800-225-5151)	8.1	60.5	2.6	199.3	65.5	7.50	0.69
B	F	Colonial Growth Shares (800-225-2365)	6.6	60.5	2.0	72.7	42.6	8.50	1.17
D	C	Commonwltl Fund Indent Plans A&B (617-482-6500)	6.8	31.5	6.9	10.4	20.9	7.50	0.32
D	C	Commonwltl Fund Indent Plan C (617-482-6500)	8.0	32.2	6.1	38.2	24.4	7.50	0.75
D	D	Corp Leaders Tr Fund Certificates Ser B (800-526-4791)	8.3	41.3	5.6	53.5	28.9	÷	0.08
C	D	Country Capital Growth Fund (309-557-2444)	6.8	58.6	2.6	61.2	54.2	7.50	0.93
D	B	Decatur Income Fund (800-523-1918)	12.6	36.7	7.3	487.2	39.4	8.50	0.68
D	C	Delaware Fund (800-523-1918)	12.7	63.1	5.8	354.1	61.3	8.50	0.76
B	C	Delta Trend Fund (800-523-1918)	12.7	114.1	0.5	49.0	257.7	8.50	1.40
D	D	Dividend Shares (800-221-5757)	7.6	47.5	4.6	291.5	33.8	8.50	0.82
C	C	The Dreyfus Fund (800-645-6561)	10.3	35.9	4.9	1,880.9	24.1	8.50	0.77
C	C	The Dreyfus Leverage Fund (800-645-6561)	10.2	32.3	6.5	389.3	35.7	8.50	1.00
C	•B	Eagle Growth Shares (212-668-8107)	—*	45.8	4.0	6.3	40.0	8.50	1.33
D	F	Eaton & Howard Stock Fund (617-482-8260)	3.3	40.1	4.5	72.4	25.9	7.25	0.85
C	C	Eaton Vance Growth Fund (617-482-8260)	10.2	58.6	2.5	83.3	72.1	8.50	0.85
B	D	Eaton Vance Special Equities ² (617-482-8260)	6.7	58.8	1.5	54.4	63.9	7.25	0.99
A +	F	Fairfield Fund (800-223-7757)	12.0	106.2	0.5	67.7	158.4	8.50	1.07
A	B	Fidelity Destiny Fund (800-225-6190)	18.8	86.5	2.3	520.6	111.8	†	0.70
A +	B	Fidelity Magellan Fund (800-225-6190)	22.2	112.4	0.7	1,365.2	830.0	3.00	0.85
B	D	First Investors Discovery Fund (212-825-7900)	10.9	149.0	0.9	27.5	461.2	8.50	1.50
A	F	First Investors Fund for Growth (212-825-7900)	8.9	98.5	1.7	108.5	113.2	8.50	0.98
D	F	First Investors Natural Resources Fund (212-825-7900)	3.4	62.6	2.2	14.1	74.1	8.50	1.29
D	A	First Investors Option Fund (212-825-7900)	6.5	18.4	3.5	119.1	2.1	÷	0.97
D	D	Founders Mutual Fund (800-525-2440)	7.0	56.9	3.8	144.9	42.6	4.00	0.47
A	F	Franklin Custodian-Dynatech Ser (800-227-6350)	10.2	98.2	1.2	40.6	290.4	7.25	1.06

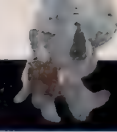
•Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period. †Fund not currently selling new shares.
 ‡Available only through contractual plans. ¹Formerly CG Fund. ²Formerly Eaton & Howard Growth Fund.



Performance in UP markets			Investment results			Total assets 6/30/83 % change '83 vs '82		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1973-83	Latest 12 months return from capital growth	return from income dividends				
		Standard & Poor's 500 stock average	8.3%	53.4%	4.1%				
		FORBES stock fund composite	10.8%	63.3%	2.9%				
		FORBES balanced fund composite	8.8%	36.4%	7.3%				
		FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%				
Stock funds (load)			Group averages						
			10.6%	64.0%	2.9%				
C	D	Franklin Custodian-Growth Ser (800-227-6350)	6.1%	70.3%	1.0%	\$16.1	126.8%	7.25%	\$1.05
D	B	Franklin Custodian-Utilities Ser (800-227-6350)	6.3	17.4	9.0	21.9	71.1	7.25	1.07
B	F	Franklin Option Fund (415-570-3000)	7.2	43.8	2.6	6.6	50.0	7.25	1.33
C	D	Fund of America (713-522-1111)	10.6	74.3	3.3	128.6	77.9	8.50	0.91
A	C	Fund of the Southwest (713-757-5656)	13.1	68.4	1.6	8.0	81.8	7.50	1.01
D	D	Fundamental Investors (213-486-9200)	7.9	57.1	3.7	421.3	44.1	8.50	0.64
B	A	Growth Fund of America (415-421-9360)	15.4	55.4	4.1	407.6	136.0	8.50	0.72
B	●C	The Guardian Park Avenue Fund (212-598-8259)	—*	68.5	3.1	50.3	63.8	8.50	0.67
C	F	Hamilton Funds (303-770-2345)	7.4	56.2	3.1	262.1	33.5	8.50	0.91
A	F	John Hancock Growth Fund (617-421-2909)	6.0	71.4	1.3	49.8	93.0	8.00	1.17
A +	C	IDS Growth Fund (612-372-3131)	14.9	108.9	1.2	682.1	136.8	5.00	0.79
A	F	IDS New Dimensions Fund (612-372-3131)	10.5	82.2	2.5	384.8	88.4*	5.00	0.81
C	D	IDS Progressive Fund (612-372-3131)	7.1	65.0	2.0	155.9	64.6	5.00	0.98
D	A	Income Fund of America (415-421-9360)	11.9	34.5	7.3	282.6	33.8	8.50	0.67
C	C	The Investment Co of America (213-486-9200)	11.4	52.5	3.9	2,358.8	53.4	8.50	0.46
C	D	Investment Trust of Boston (617-542-0213)	8.8	57.5	2.5	69.3	47.1	7.25	0.90
A +	D	Investors Research Fund (213-595-7711)	15.6	113.0	3.0	40.6	144.6	8.50	0.95
D	D	Investors Stock Fund (612-372-3131)	7.2	41.5	4.8	1,577.2	29.1	5.00	0.60
C	F	Investors Variable Payment Fund (612-372-3131)	6.3	64.3	3.0	437.8	44.9	5.00	0.68
D	A	ISI Growth Fund (415-832-1400)	8.5	15.6	7.6	14.7	10.5	8.50	1.26
D	A	ISI Income Fund (415-832-1400)	8.1	12.5	8.4	8.3	0.0	8.50	1.19
D	A	ISI Trust Fund (415-832-1400)	8.5	8.4	8.7	106.9	4.0	8.50	0.99
D	C	JP Growth Fund (919-378-2448)	9.7	45.0	5.0	18.5	-14.4	8.00	0.76
A +	D	Kemper Growth Fund (800-621-1048)	13.9	80.4	1.9	255.1	86.3	8.50	0.68
A +	D	Kemper Summit Fund (800-621-1048)	15.7	92.4	1.2	139.0	183.7	8.50	0.71
●B	●B	Lord Abbett Develop Growth (212-425-8720)	—*	100.9	none	339.8	250.7	8.50	0.94
D	D	MagnaCap Fund (800-526-0475)	4.2	36.6	3.9	9.4	64.9	7.25	1.90
A +	C	Mass Capital Development Fund (800-343-2829)	16.0	87.1	1.8	565.0	218.7	7.25	0.83
B	F	Mass Finl Development Fund (800-343-2829)	11.0	80.1	2.1	225.4	83.6	7.25	0.89
B	F	Mass Investors Growth Stock (800-343-2829)	6.8	61.4	2.2	1,073.8	59.9	7.25	0.51
C	F	Massachusetts Investors Trust (800-343-2829)	7.4	49.6	3.9	1,198.9	37.7	7.25	0.61
D	●F	Merrill Lynch Capital Fund (800-631-0749)	—*	41.3	4.1	245.8	91.1	6.50	0.81
D	B	MidAmerica High Growth Fund ³ (319-398-8511)	8.4	39.4	6.5	15.2	25.6	8.50	1.00
D	C	MidAmerica Mutual Fund (319-398-8511)	7.6	43.3	3.9	33.7	22.1	8.50	0.95
D	●F	Mutual Benefit Fund (401-751-8600)	—*	52.7	1.7	10.6	-44.5	8.50	0.93
D	D	Mutual of Omaha Growth Fund (402-397-8555)	5.1	43.7	6.7	21.3	53.2	8.00	1.44
C	F	National Growth Fund (800-223-7757)	4.5	67.3	1.8	110.5	46.6	7.25	0.71
D	C	National Stock Fund (800-223-7757)	10.2	30.8	6.0	242.9	22.4	7.25	0.70
D	C	Nationwide Fund ⁴ (800-848-0920)	7.7	34.5	5.4	239.1	31.0	7.50	0.66
C	D	Nationwide Growth Fund ⁵ (800-848-0920)	7.7	63.0	2.6	47.3	73.3	7.50	0.72
D	B	NEL Equity Fund (617-267-6600)	10.4	29.2	5.8	15.6	39.3	8.00	1.13
A	C	NEL Growth Fund (617-267-6600)	15.6	101.3	1.5	172.9	252.1	8.00	0.84
C	C	NEL Retirement Equity Fund (617-267-6600)	8.2	41.5	4.0	71.2	34.6	8.00	0.76
C	●D	New Perspective Fund (213-486-9200)	—*	41.0	5.2	567.3	38.6	8.50	0.79
B	C	New York Venture Fund (800-545-2098)	12.6	72.6	2.1	95.0	87.4	8.50	1.03

●Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period. ³Formerly American Insurance & Industrial Fund. ⁴Formerly MIF/Nationwide Fund. ⁵Formerly MIF/Nationwide Growth Fund.

1983 Fund Ratings



Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1973-83	Latest 12 months return from capital growth	return from income dividends	6/30/83 (millions)	% change '83 vs '82		
			Standard & Poor's 500 stock average	8.3%	53.4%	4.1%			
			FORBES stock fund composite	10.8%	63.3%	2.9%			
			FORBES balanced fund composite	8.8%	36.4%	7.3%			
			FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%			
Stock funds (load)			Group averages						
			10.6%	64.0%	2.9%				
D	C	Old Dominion Investors' Trust (804-539-2396)	10.8%	37.5%	5.1%	\$ 4.3	38.7%	0.99%	\$1.14
A +	F	Oppenheimer AIM Fund (800-525-7048)	11.5	80.1	1.2	325.3	85.9	8.50	1.02
B	B	Oppenheimer Equity Income Fund ⁶ (303-770-2345)	17.3	82.0	4.4	64.4	54.4	8.50	1.00
B	F	Oppenheimer Fund (800-525-7048)	6.9	67.7	1.5	351.1	53.3	8.50	1.02
A	•C	Oppenheimer Special Fund (800-525-7048)	—*	56.9	2.0	570.2	125.6	8.50	0.98
A +	D	Oppenheimer Time Fund (800-525-7048)	12.3	94.1	2.5	190.8	157.8	8.50	0.92
B	B	Over-The-Counter Securities Fund (800-523-2578)	20.0	72.5	1.4	72.5	60.0	8.00	1.20
C	B	Paramount Mutual Fund (800-421-4374)	13.0	66.9	1.5	71.5	550.0	8.50	1.23
C	C	Philadelphia Fund (212-668-8107)	11.7	40.7	5.0	121.6	32.0	8.50	0.86
C	D	Pilgrim Fund (800-526-0475)	6.2	24.6	4.1	46.8	11.2	7.25	1.40
B	C	Pilot Fund (713-751-2400)	12.3	93.2	1.4	85.2	70.7	8.00	1.12
C	D	Pioneer Fund (800-225-6292)	13.2	48.2	3.9	1,344.8	51.5	8.50	0.68
B	B	Pioneer II (800-225-6292)	19.9	64.7	3.2	1,011.4	107.3	8.50	0.70
C	C	The Putnam Growth Fund (800-343-0929)	10.4	44.2	5.3	815.9	37.6	8.50	0.60
B	D	Putnam Investors Fund (800-343-0929)	9.4	69.6	1.8	1,072.2	67.1	8.50	0.53
B	C	Putnam Vista Fund (800-343-0929)	12.6	81.0	2.6	159.0	141.3	8.50	1.00
A +	C	Putnam Voyager Fund (800-343-0929)	14.9	89.7	1.2	223.7	154.5	8.50	1.07
A +	A	Research Capital Fund (800-227-6350)	12.3	125.5	3.8	111.4	191.6	7.25	0.96
C	F	Research Equity Fund (800-227-6350)	6.5	50.7	2.0	68.1	45.5	7.25	1.03
B	C	St Paul Capital Fund (612-738-4000)	13.2	70.4	2.6	76.0	68.5	6.00	0.94
A	C	St Paul Growth Fund (612-738-4000)	17.3	82.1	1.9	80.4	119.1	6.00	0.95
A	F	Security Equity Fund (800-255-3557)	12.3	88.9	1.9	298.1	74.4	8.50	0.72
D	C	Security Investment Fund (800-255-3557)	13.3	45.4	6.5	137.3	42.0	8.50	0.69
A	F	Security Ultra Fund (800-255-3557)	15.5	75.5	2.3	104.0	128.1	8.50	1.20
A +	D	Seligman Capital Fund (800-221-2450)	15.5	135.5	none	142.3	225.6	7.25	0.98
C	D	Seligman Common Stock Fund (800-221-2450)	10.2	59.9	4.2	436.3	49.3	7.25	0.57
B	F	Seligman Growth Fund (800-221-2450)	7.1	75.6	1.2	818.1	57.3	7.25	0.56
D	B	Sentinel Common Stock Fund (802-229-3900)	11.5	37.4	5.8	330.0	30.1	8.50	0.89
B	C	Sentinel Growth Fund (802-229-3900)	11.9	88.7	1.6	45.7	88.1	8.50	1.05
C	C	Sentry Fund (800-826-0266)	8.4	54.9	2.6	34.3	56.6	8.00	0.77
B	C	The Shearson Appreciation Fund (212-577-5794)	10.2	54.3	1.6	99.7	602.1	5.00	1.80
B	D	Sigma Capital Shares (800-441-9490)	11.4	67.9	1.6	37.2	69.1	8.50	1.20
D	D	Sigma Investment Shares (800-441-9490)	8.7	39.0	4.2	55.5	31.5	8.50	1.16
B	D	Sigma Special Fund (800-441-9490)	11.8	60.2	1.8	16.5	120.0	8.50	1.41
A +	C	Sigma Venture Shares (800-441-9490)	15.4	85.2	1.0	58.5	157.7	8.50	1.05
D	B	Smith, Barney Income & Growth (212-613-2616)	12.1	41.0	5.3	5.6	47.4	5.00	2.00
D	C	Sovereign Investors (215-972-5490)	9.4	29.8	5.2	12.2	50.6	5.00	1.00
C	F	State Bond Common Stock Fund ⁷ (507-354-2144)	4.8	48.0	2.7	36.8	36.8	8.50	1.24
D	C	State Bond Diversified Fund ⁸ (507-354-2144)	8.9	42.8	5.0	9.6	47.7	8.50	0.97
B	F	State Bond Progress Fund ⁹ (507-354-2144)	7.4	74.7	1.8	8.2	90.7	8.50	1.19
C	D	State Street Investment Corp (617-482-3920)	9.4	59.4	2.8	548.6	48.0	†	0.52
C	•F	Sun Growth Fund (800-343-2829)	—*	60.3	1.8	4.1	36.7	8.50	1.46
A	F	Surveyor Fund (800-221-5233)	9.1	76.8	0.4	126.4	67.4	8.50	1.04
A	F	Technology Fund (800-621-1048)	12.6	65.4	2.4	715.0	59.0	8.50	0.50
B	B	Templeton Growth Fund (800-237-0738)	16.8	61.3	1.9	832.1	63.7	8.50	0.84

•Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period. †Fund not currently selling new shares.
⁶Formerly Centennial Equity Income Fund. ⁷Formerly Common Stock Fund State Bond & Mortgage Co. ⁸Formerly Diversified Fund of State Bond & Mortgage Co. ⁹Formerly Progress Fund.

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The performance figures for the period June 30, 1971 to June 30, 1983 update the figures found in the funds' prospectus.

1983 Fund Ratings



Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1973-83	Latest 12 months return from capital growth	return from income dividends	6/30/83 (millions)	% change '83 vs '82		
		Standard & Poor's 500 stock average	8.3%	53.4%	4.1%				
		FORBES stock fund composite	10.8%	63.3%	2.9%				
		FORBES balanced fund composite	8.8%	36.4%	7.3%				
		FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%				
Stock funds (load)			Group averages						
			10.6%	64.0%	2.9%				
D	D	Transamerica Capital Fund (800-631-0749)	5.8%	34.5%	5.2%	\$ 44.2	24.2%	8.00%	\$0.90
B	D	Travelers Equities Fund (203-277-0111)	9.3	46.8	3.8	51.6	46.2	8.50	0.84
C	F	United Accumulative Fund (816-283-4000)	8.9	63.5	4.7	523.5	55.7	8.50	0.60
D	C	United Income Fund (816-283-4000)	7.3	60.5	4.8	554.4	43.5	8.50	0.64
C	D	United International Growth Fund (816-283-4000)	7.6	45.1	4.8	79.4	45.2	8.50	0.93
B	F	United Science & Energy Fund (816-283-4000)	7.3	52.6	4.3	198.6	41.5	8.50	0.71
A	C	United Vanguard Fund (816-283-4000)	12.4	81.8	2.3	266.7	237.2	8.50	0.99
B	B	Vance, Sanders Special Fund (617-482-8260)	12.9	50.8	2.8	138.6	60.4	8.50	0.88
C	F	The Wall Street Fund (212-943-1182)	5.8	70.1	1.4	7.5	47.1	8.50	2.55
D	B	Washington Mutual Investors Fund (202-842-5665)	13.1	53.0	4.6	536.1	53.7	8.50	0.58
Not rated**									
		ABT Arbitrage Fund (800-327-4508)	—*	—	—*	3.8	—	8.50	NA
		Aggressive Growth Shares (800-221-5757)	—*	—	—*	11.7	—	8.50	NA
		Alliance Technology Fund (800-221-7780)	—*	184.1	none	192.4	3,106.7	+	0.61
		Chancellor New Decade Growth Fund (800-221-7984)	—*	95.5	0.9	70.4	173.9	6.75	1.24
		Chancellor Tax-Mgd Utility Fund (800-221-7984)	—*	22.6	none	176.3	58.0	6.75	1.06
		Colonial Corporate Cash Trust (800-225-2365)	—*	5.8	12.3	276.0	3,393.7	2.50	0.95
		Colonial Option Growth Trust (800-225-2365)	—*	74.6	2.2	5.6	107.4	8.50	1.50
		Colonial Option Income Trust (800-225-2365)	—*	32.0	3.5	779.0	244.5	8.50	0.97
		Colonial Tax-Managed Trust (800-225-2365)	—*	26.1	none	375.5	147.0	8.50	0.95
		Dean Witter Dividend Growth Secs (212-938-4554)	—*	44.5	4.2	30.6	108.2	5.50	1.18
		Dean Witter Industry-Valued Secs ¹⁰ (212-938-4554)	—*	53.0	2.2	46.3	151.6	5.50	1.01
		Dean Witter Natural Resource Devel ¹¹ (212-938-4554)	—*	49.1	2.3	38.1	43.2	5.50	1.15
		Eaton Vance Tax-Managed Trust (617-482-8260)	—*	27.4	none	552.5	140.0	8.50	0.94
		Eberstadt Energy-Resources Fund (800-221-5233)	—*	47.1	2.1	43.6	42.5	8.50	1.50
		Fidelity Mercury Fund (800-225-6190)	—*	—	—*	118.3	—	3.00	1.50
		Fidelity Select-Energy Portfolio (800-225-6190)	—*	42.4	none	70.5	9,971.4	2.00	1.50
		Fidelity Select-Fin Svcs Portfolio (800-225-6190)	—*	69.0	none	12.0	NM	2.00	1.50
		Fidelity Select-Health Care Port (800-225-6190)	—*	100.0	none	141.1	NM	2.00	1.50
		Fidelity Select-Precious Metals & Min (800-225-6190)	—*	159.3	none	108.4	NM	2.00	1.50
		Fidelity Select-Tech Portfolio (800-225-6190)	—*	162.1	none	670.4	NM	2.00	1.32
		Fidelity Select-Util Portfolio (800-225-6190)	—*	29.3	none	10.3	1,960.0	2.00	1.50
		The 44 Wall Street Equity Fund (800-221-7836)	—*	98.4	none	30.8	56.4	8.50	1.68
		Foster & Marshall Growth Fund (206-344-3500)	—*	47.7	1.8	19.0	113.5	5.00	1.90
		The Greenway Fund ¹² (713-626-1919)	—*	89.6	none	5.0	78.6	6.50	2.00
		IDS Discovery Fund (612-372-3131)	—*	88.3	1.6	339.6	301.9	5.00	0.92
		IRI Stock Fund (800-328-1010)	—*	48.8	0.8	8.9	641.7	4.50	2.00
		Kemper Option Income Fund (800-621-1048)	—*	29.7	3.7	95.5	74.6	8.50	0.84
		Mass Finl Emerging Growth Tr (800-343-2829)	—*	126.0	1.0	127.7	4,303.5	7.25	1.50
		Merrill Lynch Basic Value Fund (800-631-0749)	—*	57.9	4.4	234.9	128.1	6.50	0.89
		Merrill Lynch Special Value Fund (800-221-2990)	—*	76.7	1.5	103.7	146.3	6.50	1.29
		National Telecommns & Tech Fund (212-482-8100)	—*	—	—*	140.2	—	8.50	1.12
		Oppenheimer Directors Fund (212-668-5000)	—*	121.6	0.8	267.0	489.4	8.50	0.97
		Oppenheimer Option Income Fund (800-525-7048)	—*	27.6	5.1	65.5	35.3	8.50	0.97
		Oppenheimer Regency Fund (800-525-7048)	—*	—	none	37.7	—	3.00	NA
		Oppenheimer Target Fund (800-525-7048)	—*	140.8	0.7	211.2	1,537.2	6.00	1.23

*Fund not in operation for full period. **Funds that were not offered to the public or whose assets did not exceed \$2 million before Sept. 21, 1976, or funds that were not rated because of a change in investment policy. †Fund not currently selling new shares.

¹⁰Formerly InterCapital Industry-Valued Securities. ¹¹Formerly InterCapital Natural Resource Development Sec. ¹²Formerly The Edson Gould Fund. NA: Not available. NM: Not meaningful.

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1983 Fund Ratings

Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average	Latest 12 months					
			annual total return 1973-83	return from capital growth	return from income dividends	6/30/83 (millions)	% change '83 vs '82		
		Standard & Poor's 500 stock average	8.3%	53.4%	4.1%				
		FORBES stock fund composite	10.8%	63.3%	2.9%				
		FORBES balanced fund composite	8.8%	36.4%	7.3%				
		FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%				
Stock funds (load)			Group averages						
			10.6%	64.0%	2.9%				
Not rated**									
		Phoenix Growth Fund Series ¹³ (800-243-1574)	—*	65.0%	4.1%	\$ 63.9	71.3%	8.50%	\$1.06
		Phoenix Stock Fund Series ¹⁴ (800-243-1574)	—*	77.1	2.8	45.8	83.9	8.50	1.15
		Pioneer Three (800-225-6292)	—*	—	—*	93.5	—	8.50	0.40
		Planned Investment Fund (617-742-5900)	—*	28.9	none	4.0	53.9	4.00	4.87
		Prudential-Bache Equity Fund (800-528-6166)	—*	55.8	1.3	13.3	786.7	6.75	1.50
		Prudential-Bache Option Growth Fund (800-528-6166)	—*	—	—*	94.0	—	6.75	NA
		Putnam Capital Fund ¹⁵ (800-343-0929)	—*	—	—*	21.0	—	+	NA
		Putnam Health Sciences Trust (800-343-0929)	—*	51.8	1.4	398.1	59.2	8.50	NA
		Putnam Option Income Trust (800-343-0929)	—*	37.3	2.7	159.4	108.6	8.50	1.01
		Rochester Tax Managed Fund (716-232-6930)	—*	51.4	none	7.0	288.9	8.50	4.40
		Sci/Tech Holdings (800-221-2990)	—*	—	—*	604.6	—	8.50	NA
		Strategic Capital Gains (800-527-5027)	—*	67.3	none	8.2	2,633.3	8.50	1.30
		Strategic Investments Fund (800-527-5027)	—*	164.0	4.0	137.0	528.4	8.50	1.10
		Sunbelt Growth Fund (713-751-2400)	—*	88.2	none	193.1	NM	8.00	NA
		Tax-Managed Fund for Util Shares (800-327-4508)	—*	24.9	none	156.3	16.9	8.50	1.02
		Templeton Global Fund (800-237-0738)	—*	80.6	2.9	242.9	94.3	8.50	1.15
		Templeton World Fund (800-237-0738)	—*	60.5	3.3	1,226.6	86.9	8.50	0.85
		World of Technology (800-525-9274)	—*	—	—*	5.5	—	5.00	NA
Stock funds (no load)			Group averages						
			10.8%	63.9%	2.8%				
B	C	Acorn Fund (312-621-0630)	15.3%	53.9%	3.2%	\$179.5	76.7%	none	\$0.92
B	F	ADV Fund (212-908-9582)	6.0	63.1	2.5	30.1	90.5	none	1.78
B	C	Afuture Fund (800-523-7594)	11.0	52.6	4.4	47.9	69.3	none	1.60
A	D	American Investors Fund (800-243-5353)	8.5	56.3	none	161.3	34.6	none	1.15
B	D	Armstrong Associates (214-744-5558)	12.5	52.1	4.2	12.9	67.5	none	1.70
C	F	David L Babson Investment Fund (800-821-5591)	5.6	50.9	2.9	249.3	21.2	none	0.60
D	C	Beacon Hill Mutual Fund (617-482-0795)	4.6	38.9	0.2	2.6	30.0	none	3.80
C	F	Boston Co Capital Apprec Fund (800-343-6324)	5.4	54.2	2.5	247.2	51.3	none	1.07
D	F	Boston Mutual Fund (617-828-7000)	5.0	52.1	3.0	5.1	64.5	none	1.53
A	F	Bull & Bear Capital Growth Fund ¹⁶ (800-431-6060)	10.9	66.0	1.3	105.9	197.5	none	1.42
D	B	Bull & Bear Equity-Income Fund ¹⁷ (800-431-6060)	10.5	27.2	5.7	5.1	75.9	none	2.02
D	D	Century Shares Trust (800-225-6704)	6.5	37.9	4.8	74.7	30.4	none	1.13
C	A	Charter Fund (214-742-6567)	15.6	44.0	4.1	76.5	71.1	none	1.25
A	C	Columbia Growth Fund (800-547-1037)	14.6	93.8	0.4	148.3	322.5	none	1.15
D	C	Composite Fund (800-541-0830)	8.8	46.4	4.6	40.3	80.7	none	0.88
C	B	Concord Fund (617-742-7077)	10.6	46.4	3.0	1.9	35.7	+	2.71
A +	F	The Constellation Growth Fund (212-557-8787)	17.9	140.0	none	154.8	441.3	none	1.10
C	D	de Vegh Mutual Fund (800-221-7780)	8.4	47.1	4.5	71.1	29.7	none	1.12
D	F	Directors Capital (212-635-0616)	-14.4	-48.2	none	.4	-55.6	none	18.50
C	D	Dodge & Cox Stock Fund (415-981-1710)	9.9	53.0	3.7	26.6	52.9	none	0.75
D	F	The Drexel Burnham Fund (212-483-1436)	7.0	36.2	5.3	77.1	108.4	none	1.30
A	C	Dreyfus Growth Opportunity Fund ¹⁸ (800-645-6561)	14.3	62.7	2.1	358.2	209.6	none	1.10
A	C	The Dreyfus Third Century Fund (800-645-6561)	13.7	51.2	3.1	150.7	65.4	none	1.01
D	B	Energy & Utility Shares (215-542-8025)	6.9	20.3	9.0	9.0	28.6	none	1.98

*Fund not in operation for full period. **Funds that were not offered to the public or whose assets did not exceed \$2 million before Sept. 21, 1976, or funds that were not rated because of a change in investment policy. +Fund not currently selling new shares.

¹³Formerly Phoenix-Chase Growth Fund Series. ¹⁴Formerly Phoenix-Chase Stock Fund Series. ¹⁵Formerly Putnam Duofund. ¹⁶Formerly Capital Shares.

¹⁷Formerly Capamerica Fund. ¹⁸Formerly Dreyfus Number Nine.

NA: Not available. NM: Not meaningful.



Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1973-83	Latest 12 months					
				return from capital growth	return from income dividends				
		Standard & Poor's 500 stock average	8.3%	53.4%	4.1%				
		FORBES stock fund composite	10.8%	63.3%	2.9%				
		FORBES balanced fund composite	8.8%	36.4%	7.3%				
		FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%				
Stock funds (no load)			Group averages						
			10.8%	63.9%	2.8%				
C	D	Energy Fund (212-850-8300)	12.0%	34.1%	5.1%	\$367.1	29.4%	none	\$0.88
A +	C	The Evergreen Fund (914-698-5711)	22.1	80.1	1.6	208.6	124.5	none	1.13
A	B	Explorer Fund (800-523-7025)	15.1	105.4	0.5	269.8	493.0	none	0.82
D	●D	Farm Bureau Growth Fund (800-247-4170)	—*	30.2	5.6	48.3	37.6	none	0.81
B	C	Fidelity Contrafund (800-225-6190)	12.4	53.3	3.7	86.9	53.0	none	1.00
C	A	Fidelity Equity-Income Fund (800-225-6190)	17.8	56.6	6.3	647.7	190.7	none	0.82
C	C	Fidelity Fund (800-225-6190)	11.0	60.7	4.3	691.8	60.0	none	0.73
D	A	Fidelity Puritan Fund (800-225-6190)	12.5	38.8	7.3	818.3	37.7	none	0.66
B	F	Fidelity Trend Fund (800-225-6190)	6.6	58.9	2.0	672.5	50.0	none	0.78
C	B	Financial Dynamics Fund (800-525-9831)	12.4	67.8	1.7	101.4	96.1	none	0.66
C	C	Financial Industrial Fund (800-525-9831)	12.0	51.3	5.2	395.9	45.6	none	0.64
D	B	Financial Industrial Income Fund (800-525-9831)	14.1	44.8	5.4	222.6	50.1	none	0.63
A +	D	The 44 Wall Street Fund (800-221-7836)	15.4	100.9	none	248.4	151.7	none	1.11
B	D	Founders Growth Fund (800-525-2440)	10.7	66.0	2.7	52.6	68.6	none	1.37
D	A	Founders Income Fund (800-525-2440)	9.9	24.0	6.5	6.7	31.4	none	1.50
A	C	Founders Special Fund (800-525-2440)	13.2	107.8	1.1	100.2	234.0	none	1.42
D	D	Foursquare Fund (617-482-8260)	5.7	39.0	3.2	5.8	18.4	none	2.70
C	C	General Securities (612-332-1212)	11.2	53.2	3.5	13.4	47.3	none	1.50
B	D	Growth Industry Shares (312-346-4830)	11.0	77.5	1.4	70.2	82.8	none	0.94
B	C	Guardian Mutual Fund (800-225-1596)	14.2	57.6	3.8	307.3	84.5	none	0.76
A +	D	Hartwell Growth Fund (212-247-8740)	14.3	111.1	none	14.5	119.7	none	2.30
A +	D	Hartwell Leverage Fund (212-247-8740)	20.6	129.5	none	71.9	376.2	none	1.40
B	F	Herold Fund (203-869-2585)	5.7	57.4	none	2.0	25.0	÷	2.66
C	D	Istel Fund (212-702-0174)	9.0	36.2	5.8	121.6	28.3	none	1.06
B	F	Ivest Fund (800-523-7025)	6.0	68.4	1.8	196.9	63.8	none	1.16
C	D	Ivy Fund (617-749-1416)	8.2	56.6	5.1	103.3	81.2	none	1.28
B	A	Janus Fund (800-525-3713)	16.3	74.9	1.8	243.2	441.7	none	1.31
C	F	Keystone Custodian Funds K-2 (800-225-2618)	5.3	72.3	2.9	160.3	56.9	none	0.80
D	F	Keystone Custodian Funds S-1 (800-225-2618)	4.6	51.0	3.3	74.0	43.4	none	0.82
B	F	Keystone Custodian Funds S-3 (800-225-2618)	9.6	75.8	2.2	155.8	72.4	none	0.76
A +	F	Keystone Custodian Funds S-4 (800-225-2618)	9.5	116.9	0.2	720.4	104.7	none	0.80
A	D	Lexington Growth Fund (800-526-4791)	11.0	68.9	0.9	49.0	274.1	none	1.56
C	D	Lexington Research Fund (800-526-4791)	9.7	60.6	3.5	131.8	72.1	none	1.07
●C	●A	Lindner Fund (314-727-5305)	—*	45.1	3.6	270.8	209.1	none	1.33
A	C	Loomis-Sayles Capital Development (800-225-7670)	15.1	109.4	1.7	162.4	142.0	none	0.81
C	D	Mairs & Power Growth Fund (612-222-8478)	8.1	65.7	2.2	20.4	61.9	none	1.03
B	F	Manhattan Fund (212-850-8300)	4.3	68.0	2.7	79.9	55.5	none	1.50
C	D	Horace Mann Fund (217-789-2500)	8.1	82.2	1.1	78.2	54.6	÷	0.89
B	D	Mathers Fund (312-236-8215)	12.3	58.9	2.5	224.3	40.6	none	0.63
B	D	W L Morgan Growth Fund (800-523-7025)	11.2	77.8	1.8	416.0	99.0	none	1.04
B	B	Mutual Shares (212-908-4047)	21.0	44.3	4.3	215.3	65.6	none	0.78
B	B	Naess & Thomas Special Fund (212-269-6500)	16.0	117.2	1.3	46.3	243.0	none	2.19
B	C	National Aviation & Technology (212-482-8100)	13.7	58.9	3.0	107.7	47.3	none	1.25
C	F	National Industries Fund (213-277-1450)	6.7	28.3	4.3	32.0	25.5	none	1.70
B	F	Neuwirth Fund (800-221-7780)	8.9	93.4	1.0	28.8	92.0	none	1.79

•Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period. †Fund not currently selling new shares.



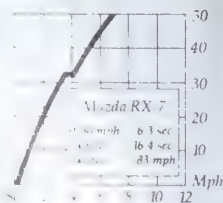
Experience Mazda RX-7. The one high-performance

The Mazda RX-7 experience. It is a sports car enthusiast's dream made real.

It is a rotary engine that can propel you from zero to 50 in just 6.3 seconds.

It is superb directional control made possible by a finely-tuned suspension system and anti-sway bars.

And to make the experience even more enjoyable, the RX-7 is an astonishing value—a sports car enthusiast's dream made



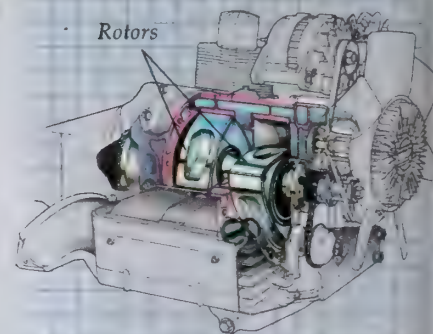
affordable.

As the best-selling two-seat sports car in America, the RX-7 has exceptional resale value. The Kelley Blue Book, March-April 1983, reports that a 1979 RX-7 S has retained 97.7% of its original sticker price, compared to 74.5% for a 1979 Datsun 280ZX.

If you are partial to the joys of high-performance motoring, all that remains is for you to climb into the RX-7's refined cockpit and head for the open road.

That is where the real Mazda RX-7 experience awaits you.

Because its rotors turn constantly in one direction, the Mazda RX-7's 100-horsepower rotary engine is smoother, more efficient, and more powerful for its size than a conventional piston engine.



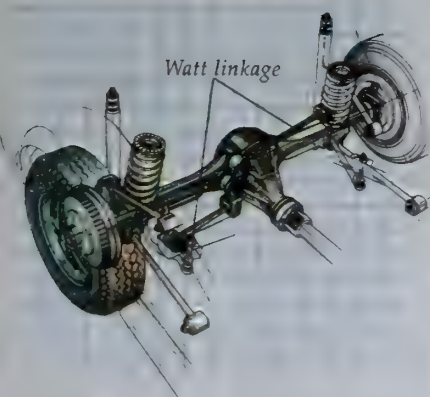
29 EST.
HWY.
MPG

20 EST.
MPG

*EPA estimates for comparison. Your mileage may vary with trip length, speed and weather. Highway mileage will probably be less. Mazda's rotary engine licensed by NSU-WANKEL. **Manufacturer's suggested retail price. Actual price set by dealer. Taxes,



ports car that is not reserved for a privileged few.



The RX-7's live-axle rear suspension is ideal for achieving true sports car handling. The system depends on Watt linkage to stabilize the axle and promote precise tracking through turns.

Standard features include
 5-speed overdrive transmission
 • Steel-belted radial tires • Power-assisted front disc brakes • Front and rear anti-sway bars • Retractable headlamps • Automatic power antenna • Cut-pile carpeting • Electric rear window defroster • Driver's seat 3-position lumbar support adjustment • Voltmeter, temperature & oil pressure gauges • Two-speed wipers plus intermittent action
 • Covered rear stowaway lockers
 • Side window demisters.

Experienced drivers buckle up.

1983 Mazda RX-7 S

\$9895**

GET MORE INFORMATION.

We'd like to send you a free copy of our 20-page catalog describing the RX-7. Just send your name, address, city, state, and zip code to the following address and mention that you'd like the RX-7 catalog.

Mailing and Marketing Inc.

Box 5960

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Attn: Mazda RX-7 Offer

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The more you look,
 the more you like.

license, freight, options (wide tires/al. wheels \$350-\$420) and other dealer charges extra. Price may change without notice. Availability of vehicles with specific features may vary.

1983 Fund Ratings



Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1973-83	Latest 12 months					
				return from capital growth	return from income dividends				
		Standard & Poor's 500 stock average	8.3%	53.4%	4.1%				
		FORBES stock fund composite	10.8%	63.3%	2.9%				
		FORBES balanced fund composite	8.8%	36.4%	7.3%				
		FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%				
Stock funds (no load)			Group averages						
			10.8%	63.9%	2.8%				
B	D	Newton Growth Fund (414-347-1141)	9.0%	100.8%	1.6%	\$ 35.7	128.9%	none	\$1.11
B	B	Nicholas Fund (414-272-6133)	10.8	80.6	2.4	160.7	186.5	none	0.95
D	C	North Star Stock Fund (612-371-7875)	9.1	58.7	2.8	39.5	131.0	none	0.80
B	D	Omega Fund (617-357-8480)	9.4	51.2	1.1	32.7	39.2	none	1.39
D	C	The One Hundred & One Fund (303-837-1020)	9.9	79.2	3.1	1.2	50.0	none	2.00
B	D	The One Hundred Fund (303-837-1020)	6.4	93.6	0.6	15.6	66.0	none	1.75
C	D	The One William Street Fund (800-221-5350)	9.8	63.2	3.0	393.8	55.7	none	0.63
C	●C	Partners Fund (212-850-8300)	—*	32.2	6.4	140.3	88.6	none	0.97
C	C	Penn Square Mutual Fund (800-523-8440)	12.0	51.3	4.8	178.4	41.5	none	0.66
A	C	Pennsylvania Mutual Fund (800-221-4268)	14.5	98.1	0.5	78.5	194.0	none	1.51
D	D	Pine Street Fund (800-221-7780)	9.9	51.0	4.0	45.0	30.4	none	1.14
A	C	Plitrend Fund (713-757-5656)	15.5	73.5	2.3	76.5	352.7	none	1.11
A	●D	Precious Metals Holdings (617-338-4220)	—*	105.9	3.7	80.0	83.9	none	1.25
C	F	T Rowe Price Growth Stock Fund (800-638-5660)	3.2	47.9	3.1	1,114.5	38.9	none	0.51
B	D	T Rowe Price New Era Fund (800-638-5660)	10.7	47.3	4.5	486.0	42.1	none	0.71
A +	F	T Rowe Price New Horizons Fund (800-638-5660)	9.1	96.0	1.0	1,675.3	112.7	none	0.56
D	F	PRO Fund (800-523-0864)	2.7	56.5	2.8	42.5	47.6	none	1.27
●D	●A	Qualified Dividend-Portfolio I (800-523-7025)	—*	47.8	6.4	44.3	151.7	none	0.80
●A	●C	Quasar Associates (800-221-7780)	—*	114.9	0.6	43.6	161.1	none	1.25
C	D	SAFECO Equity Fund (800-426-6730)	10.8	40.7	5.3	35.9	32.0	none	0.64
A	D	SAFECO Growth Fund (800-426-6730)	13.4	73.7	2.2	66.9	87.4	none	0.60
D	B	SAFECO Income Fund (800-426-6730)	11.7	42.9	6.5	20.6	44.1	none	0.63
B	F	Scudder Capital Growth Fund (800-225-2470)	8.2	72.9	2.2	230.9	143.8	none	0.85
C	F	Scudder Common Stock Fund (800-225-2470)	8.2	50.3	3.1	260.3	86.3	none	0.86
A	C	Scudder Development Fund (800-225-2470)	11.5	64.3	1.9	252.9	184.8	none	1.28
D	D	Selected American Shares (800-621-7321)	4.7	32.9	6.2	80.4	23.5	none	1.02
C	F	Selected Special Shares (800-621-7321)	6.5	77.9	1.6	38.2	58.5	none	1.32
C	A	Sequoia Fund (212-245-4500)	18.4	35.5	4.7	310.6	107.3	+	1.10
B	A	Sherman, Dean Fund (212-577-3850)	12.9	57.1	1.4	5.1	10.9	none	1.91
B	●F	Sierra Growth Fund (213-277-1450)	—*	58.8	1.5	7.2	140.0	none	2.04
B	D	Smith, Barney Equity Fund (800-225-1525)	9.2	58.5	3.0	68.0	42.3	none	1.08
D	F	Steadman Amer Industry Fund Tr (800-424-8570)	1.5	53.2	1.2	14.4	33.3	none	4.33
D	D	Steadman Investment Fund (800-424-8570)	3.7	30.4	4.3	15.9	19.6	none	2.71
C	D	Steadman Oceanographic Fund (800-424-8570)	4.9	47.2	1.6	9.9	35.6	none	4.13
A +	F	Stein Roe & Farnham Cap Opportun (800-621-0320)	14.1	105.9	0.6	401.3	263.2	none	0.95
A	F	Stein Roe & Farnham Stock Fund (800-621-0320)	9.4	82.2	1.7	320.3	88.5	none	0.66
●B	●D	Stratton Growth Fund (215-542-8025)	—*	70.3	1.5	12.9	122.4	none	1.80
A	B	Tudor Fund (800-223-3332)	15.8	111.2	1.2	81.2	283.0	none	1.35
A +	D	20th Century Growth Investors (816-531-5575)	22.6	86.5	0.3	675.8	158.0	none	1.08
A +	B	20th Century Select Investors (816-531-5575)	24.7	106.5	0.5	506.0	924.3	none	1.08
●A	●D	United Services Gold Shares (800-531-5777)	—*	171.0	3.8	314.7	413.4	none	1.07
C	A	The Value Line Fund (800-223-0818)	15.2	38.2	5.3	194.2	166.4	none	0.67
D	A	The Value Line Income Fund (800-223-0818)	14.6	29.2	7.5	130.0	84.4	none	0.78
C	B	Value Line Levvd Growth Investors (800-223-0818)	16.1	45.4	3.0	229.6	383.4	none	0.84
A	C	The Value Line Special Situations (800-223-0818)	14.9	79.4	2.4	380.6	218.0	none	1.02

•Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period. +Fund not currently selling new shares.

Templeton Growth Fund's Record

Illustration of an assumed investment of \$10,000

with income dividends reinvested and capital gains distributions accepted in shares (Stated in United States dollars.)

Total value of investment
April 30, 1983
\$467,381

Templeton Growth Fund, Ltd. was incorporated in Canada on September 1, 1954 and commenced operations November 29, 1954. Dividends from investment income were paid commencing in 1972. Prior to that time net income and realized capital gains were retained by the Fund. Income dividends and capital gains distributions are shown in the chart as reinvested at net asset value in accordance with the reinvestment policy described in the current prospectus.

Initial net asset value is the amount received by the Fund after deducting the maximum sales commission of 8 1/2%. The actual sales commission on an investment of \$10,000 is 7 3/4% as described in the prospectus. No adjustment has been made for any income taxes payable by shareholders. The total amount of capital gains distributions accepted in shares was \$61,202; the total amount of dividends reinvested was \$38,943.

- Value of shares acquired through reinvestment of dividends from income (**\$93,036**).
- Value of shares initially acquired (**\$248,148**) plus shares accepted as capital gains distributions (**\$126,197**).
- Annual cost of living

Cost of living
April 30, 1983
\$37,062
Source—Consumer Price Index

Cost of investment
November 29, 1954
\$10,000

Initial net asset value
\$9,150

Years ended 4/30/1955 1960 1965 1970 1975 1980 1983

Assuming annual cost of living (November, 1954) to be
\$10,000

Send no money. For a prospectus and more complete information about Templeton Growth Fund including charges and expenses contact your investment dealer or return this coupon to
Securities Fund Investors Inc
PO Box 3942 St. Petersburg FL 33731

FO 8 83

Name _____

Address _____

City _____

State _____

Zip _____

This chart covers the period from November 29, 1954 (inception) to April 30, 1983. The Fund's results shown should not be considered as a representation of the dividend income or capital gain or loss which may be realized from an investment made in the Fund today. The Cost of Living as set out in the chart represents the annual change in the Consumer Price Index, applied to an initial value in November 1954 of \$10,000. (The Consumer Price Index is prepared by the U.S. Bureau of Labor Statistics based on prevailing economic factors.) This presentation has been made so as to compare the increase in value of a \$10,000 investment in Templeton Growth Fund, Ltd., with the increase in the cost of living over the same time period.

1983 Fund Ratings

Performance in UP markets		in DOWN markets		Investment results					Maximum sales charge	Annual expenses per \$100	
				Average annual total return 1973-83	Latest 12 months		Total assets				
					return from capital growth	return from income dividends	6/30/83 (millions)	% change '83 vs '82			
				Standard & Poor's 500 stock average	8.3%	53.4%	4.1%				
				FORBES stock fund composite	10.8%	63.3%	2.9%				
				FORBES balanced fund composite	8.8%	36.4%	7.3%				
				FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%				
Stock funds (no load)				Group averages							
				10.8%	63.9%	2.8%					
•C	•F	Vanguard Index Trust (800-523-7025)			—*	51.7%	4.0%	\$ 188.5	135.9%	none	\$0.39
D	D	Variable Stock Fund (413-785-5811)			7.0%	44.4	3.0	6.7	36.7	none	1.24
A +	D	Weingarten Equity Fund (212-557-8787)			16.6	114.4	none	129.4	264.5	none	1.10
C	B	Windsor Fund (800-523-7025)			14.3	50.4	5.1	1,564.3	70.3	none	0.69
Not rated**											
American Express Growth Fund (800-343-1300)				—*	61.6	0.9	11.4	NM	none	1.50	
Analytic Optioned Equity Fund (714-833-0294)				—*	26.7	3.5	45.0	169.5	none	1.48	
Boston Co Special Growth Fund (800-343-6324)				—*	107.8	none	8.4	2,000.0	none	1.43	
Bridges Investment Fund (402-397-4700)				—*	33.4	5.7	3.0	42.9	none	1.15	
Calvert Equity Fund (800-368-2748)				—*	—	—*	9.3	—	none	NA	
Copley Tax-Managed Fund (617-674-8459)				—*	31.4	none	4.4	158.8	none	1.50	
Dean Witter Developing Growth Sec Tr (212-938-4554)				—*	—	—*	198.5	—	none	0.85	
The Dividend/Growth Fund (800-638-2042)				—*	13.1	5.0	3.8	111.1	none	2.50	
The Evergreen Total Return Fund (914-698-5711)				—*	47.9	5.2	38.7	125.0	none	1.29	
Federated Stock Trust (800-245-4270)				—*	47.8	4.4	17.7	1,006.3	none	0.45	
Fidelity Asset Investment Trust (800-225-6190)				—*	92.3	none	96.9	236.5	none	1.10	
Fiduciary Capital Growth Fund (414-271-6666)				—*	84.7	1.3	16.2	980.0	none	2.00	
Finomic Investment Fund (713-659-2611)				—*	77.4	none	6.5	91.2	none	1.90	
Gateway Option Income Fund (513-621-7774)				—*	21.0	4.0	18.4	−12.0	none	1.45	
Gintel ERISA Fund (800-243-5808)				—*	39.8	4.0	45.6	204.0	none	1.60	
Gintel Fund (800-243-5808)				—*	55.3	3.3	87.9	91.9	none	1.40	
Golconda Investors (800-431-6060)				—*	48.6	3.5	23.3	275.8	none	1.76	
The GSC Performance Fund (803-271-7622)				—*	51.2	2.1	12.9	87.0	none	2.33	
Hutton Investment-Emerging Gr Ser (212-742-5000)				—*	—	—*	161.0	—	none	2.40	
Hutton Investment-Growth Series (212-742-5000)				—*	68.3	1.4	391.3	1,440.6	none	2.12	
LBKL Capital Opportunity Fund (800-221-5350)				—*	78.8	2.4	37.8	106.6	none	1.33	
Legg Mason Value Trust (800-368-2578)				—*	77.5	1.2	28.6	2,500.0	none	1.50	
Lehman Capital Fund (800-221-5350)				—*	88.7	2.5	113.5	197.9	none	1.22	
Leverage Fund of Boston (800-225-6265)				—*	65.6	1.3	43.7	27.0	none	1.26	
Lexington Goldfund (800-526-4791)				—*	107.0	0.2	7.4	722.2	none	1.50	
Mairs & Power Income Fund (612-222-8478)				—*	41.7	6.8	2.8	55.6	none	1.39	
Medical Technology Fund (800-523-0864)				—*	87.0	0.2	72.6	305.6	none	1.47	
Midwest Gp-Bartlett Basic Value (800-543-8721)				—*	—	—*	4.3	—	none	NA	
Mutual Qualified Income Fund (212-908-4047)				—*	39.9	2.5	44.7	241.2	none	1.48	
The “New Beginning” Growth Fund (612-332-3223)				—*	—	—*	9.8	—	none	1.50	
North Star Regional Fund (612-371-7875)				—*	63.6	2.1	45.5	195.5	none	1.00	
Northeast Investors Growth Fund (800-225-6704)				—*	44.3	1.7	3.9	129.4	none	2.00	
Nova Fund (617-890-4415)				—*	65.8	1.2	30.6	121.7	none	1.70	
Pax World Fund (603-431-8022)				—*	43.6	3.8	10.0	88.7	none	1.50	
P-C Capital Fund (617-956-1516)				—*	43.3	8.9	7.7	−4.9	+	0.79	
T Rowe Price Growth and Inc Fund (800-638-5660)				—*	—	—*	142.3	—	none	0.87	
Prudential-Bache Research Fund (212-791-4654)				—*	—	—*	150.7	—	none	NA	
Quest for Value Fund (212-668-5482)				—*	82.1	2.2	10.1	80.4	none	2.48	
The Rainbow Fund (212-509-8532)				—*	45.3	none	1.8	12.5	none	4.65	
Royce Value Fund (800-221-4268)				—*	—	—*	5.6	—	none	NA	

*Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period. **Funds that were not offered to the public or whose assets did not exceed \$2 million before Sept. 21, 1976, or funds that were not rated because of a change in investment policy. †Fund not currently selling new shares. NA: Not available. NM: Not meaningful.



Performance in UP markets		in DOWN markets	Investment results					Maximum sales charge	Annual expenses per \$100
			Average annual total return 1973-83	Latest 12 months		Total assets			
				return from capital growth	return from income dividends	6/30/83 (millions)	% change '83 vs '82		
		Standard & Poor's 500 stock average	8.3%	53.4%	4.1%				
		FORBES stock fund composite	10.8%	63.3%	2.9%				
		FORBES balanced fund composite	8.8%	36.4%	7.3%				
		FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%				
Stock funds (no load)			Group averages						
			10.8%	63.9%	2.8%				
Not rated**									
		St Paul Fiduciary Fund (612-738-4000)	—*	68.0%	0.8%	\$ 7.2	166.7%	none	\$1.50
		SteinRoe Special Fund (800-621-0320)	—*	98.5	1.3	119.5	142.4	none	0.96
		SteinRoe Universe Fund (800-621-0320)	—*	90.4	1.6	336.4	192.3	none	1.10
		Trustees' Commingled Eq-US Port (800-523-7025)	—*	56.6	4.7	243.8	132.9	none	0.63
		20th Century ULTRA Investors (816-531-5575)	—*	141.5	none	509.6	1,255.3	none	1.07
		Unified Growth Fund (800-862-7283)	—*	63.0	1.8	10.5	200.0	none	1.28
		United Services Group—GBT Fund (800-531-5777)	—*	36.4	1.2	15.3	750.0	none	2.18
		USAA Mutual Fund-Growth Fund (800-531-8181)	—*	73.1	1.9	109.4	100.7	none	1.23
		USAA Mutual Fund-Sunbelt Era Fund (800-531-8181)	—*	109.0	0.2	70.6	1,076.7	none	1.45
		Valley Forge Fund (215-688-6839)	—*	33.9	5.0	3.0	87.5	none	2.00
Funds for investing abroad			Group averages						
			9.5%	45.6%	2.1%				
D	C	Canadian Fund (800-221-5757)	6.8%	66.3%	3.6%	\$ 27.2	51.1%	8.50%	\$1.30
A	A	International Investors (800-221-2220)	24.9	118.2	4.0	697.5	243.1	8.50	1.01
D	F	Keystone International Fund (800-225-2618)	2.2	43.0	1.8	33.1	22.1	none	1.68
C	D	Putnam International Equities (800-343-0929)	8.2	47.7	1.5	42.3	33.0	8.50	1.82
D	C	Scudder International Fund (800-225-2470)	6.9	37.4	2.6	108.7	90.4	none	1.19
C	C	Transatlantic Fund (212-747-0440)	8.1	29.4	1.6	34.6	25.4	none	1.44
Not rated**									
		Alliance International Fund (212-269-1500)	—*	37.8	1.5	37.1	92.2	none	1.60
		Bailard, Biehl & Kaiser Intl Fund (415-571-5800)	—*	36.8	0.7	20.0	49.3	none	2.04
		First Investors Intl Secs Fund (212-825-7900)	—*	53.8	0.7	8.0	1,500.0	8.50	1.57
		G T Pacific Fund (415-392-6181)	—*	17.0	2.4	14.0	22.8	none	1.50
		Kemper International Fund (800-621-1048)	—*	37.2	2.5	36.3	83.3	8.50	1.45
		Merrill Lynch Pacific Fund (800-225-5150)	—*	33.3	2.2	45.7	25.6	6.50	1.35
		T Rowe Price International Fund (800-638-5660)	—*	35.0	1.7	93.7	35.0	none	1.16
		Templeton Foreign Fund (800-237-0738)	—*	—	—*	16.0	—	8.50	NA
		Trustees' Commingled Eq-Intl Port(800-523-7025)	—*	—	—*	19.8	—	none	NA
Balanced funds (load)			Group averages						
			9.2%	35.9%	7.5%				
C	C	American Balanced Fund (415-421-9360)	8.6%	36.9%	6.9%	\$116.6	35.1%	8.50%	\$0.78
A +	D	American General Harbor Fund (713-522-1111)	14.1	60.3	4.9	181.2	65.3	8.50	0.73
B	C	Axe-Houghton Fund B (800-431-1030)	9.9	38.3	5.2	160.9	24.4	8.00	0.76
C	D	Boston Foundation Fund (412-288-1900)	7.6	36.1	6.9	28.4	26.8	8.50	1.52
D	A	CIGNA Income Fund ¹⁹ (800-225-5151)	6.8	22.8	10.9	226.0	38.1	7.50	0.68
B	F	The Colonial Fund (800-225-2365)	7.3	37.3	6.1	86.1	58.3	8.50	1.01
B	F	Commerce Income Shares (800-231-4645)	7.4	38.4	5.9	57.7	28.5	8.00	1.07
B	F	Eaton & Howard Balanced Fund (617-482-8260)	6.3	35.8	6.2	67.1	21.3	7.25	0.86
D	B	Eaton Vance High Yield ²⁰ (617-482-8260)	7.0	22.5	11.2	24.4	39.4	8.50	0.91
D	C	Eaton Vance Inc Fund of Boston ²¹ (617-482-8260)	8.0	23.5	9.6	28.5	-11.5	8.50	1.22
A	D	Eaton Vance Investors Fund ²² (617-482-8260)	9.7	35.9	6.4	150.5	29.6	8.50	0.82
C	B	Franklin Custodian-Income Series (800-227-6350)	12.2	24.2	11.4	58.3	55.9	7.25	0.95

*Fund not in operation for full period. **Funds that were not offered to the public or whose assets did not exceed \$2 million before Sept. 21, 1976, or funds that were not rated because of a change in investment policy.

¹⁹Formerly CG Income Fund. ²⁰Formerly Eaton & Howard Income Fund. ²¹Formerly Oppenheimer Income Fund of Boston. ²²Formerly Vance, Sanders Investors Fund. NA: Not available.

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1983 Fund Ratings

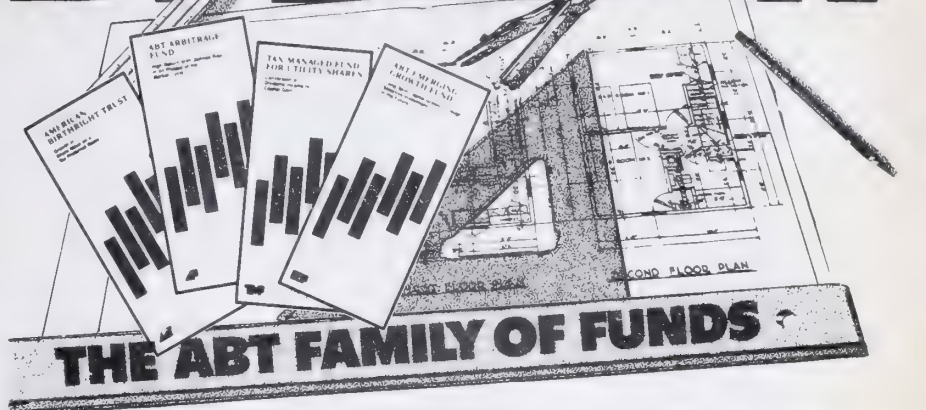
Performance in UP markets			Investment results		
			Average annual total return 1973-83	Latest 12 months return from capital growth	return from income dividends
		Standard & Poor's 500 stock average	8.3%	53.4%	4.1
		FORBES stock fund composite	10.8%	63.3%	2.1
		FORBES balanced fund composite	8.8%	36.4%	7.1
		FORBES bond and preferred stock fund composite	7.6%	19.8%	11.1
Balanced funds (load)			9.2%	35.9%	7.1
C	F	Investors Mutual (612-372-3131)	7.2%	33.2%	7.1
A +	D	Kemper Total Return Fund (800-621-1048)	15.8	56.9	3.1
D	C	Lord Abbett Income Fund (212-425-8720)	7.8	16.0	11.1
D	A	Magna Income Trust (800-526-0475)	7.9	24.2	11.1
A	F	Massachusetts Fund (800-225-1587)	8.9	43.0	6.1
C	C	Mass Income Development Fund (800-343-2829)	9.4	41.8	6.1
D	C	Mutual of Omaha Income Fund (402-397-8555)	6.5	9.8	10.1
B	D	Nation-Wide Securities (800-221-5757)	8.0	31.8	6.1
B	F	National Balanced Fund (800-223-7757)	7.8	38.9	5.1
C	B	National Income Fund (800-223-7757)	11.2	32.9	8.1
A	D	National Total Return Fund (800-223-7757)	12.3	45.2	6.1
B	C	Phoenix Convertible Fund Series ²³ (800-243-1574)	10.3	48.5	6.1
C	B	Provident Fund for Income (713-522-1111)	10.3	56.3	6.1
A	C	Putnam Convertible Fund (800-343-0929)	13.5	42.7	7.1
B	D	The George Putnam Fund Boston (800-343-0929)	8.7	44.3	7.1
D	A	The Putnam Income Fund (800-343-0929)	7.1	22.3	11.1
C	C	Seligman Income Fund (800-221-2450)	8.8	21.6	9.1
C	A	Sentinel Balanced Fund (802-229-3900)	9.5	31.1	7.1
C	D	Sigma Trust Shares (800-441-9490)	8.7	31.8	6.1
A	D	SoGen International Fund (212-832-0022)	10.2	50.2	5.1
B	F	United Cont'l Income Fund (816-283-4000)	8.5	54.3	5.1
Not rated**					
		Convertible Yield Securities (713-626-1919)	—*	33.0	6.1
		Country Capital Income Fund (309-557-2444)	—*	20.7	9.1
		GPM Fund (800-343-2902)	—*	55.5	3.1
		Merrill Lynch Equi-Bond I Fund (800-631-0749)	—*	29.4	7.1
		Merrill Lynch Phoenix Fund (800-631-0749)	—*	—	—
		Phoenix Balanced Fund Series ²⁴ (800-243-1574)	—*	38.0	6.1
		Rea-Graham Fund (213-471-1917)	—*	—	—
Balanced funds (no load)			6.3%	35.5%	7.1
B	C	Composite Bond & Stock Fund (800-541-0830)	9.8%	41.1%	7.1
B	D	Dodge & Cox Balanced Fund (415-981-1710)	8.5	35.3	6.1
C	C	The Dreyfus Special Income Fund (800-631-0749)	8.6	29.6	8.1
C	D	Keystone Custodian Funds-K-1 (800-225-2618)	9.5	36.3	8.1
B	F	Loomis-Sayles Mutual Fund (617-267-6600)	7.0	38.7	5.1
D	F	Newton Income Fund Portfolio (414-347-1141)	3.2	21.3	10.1
D	D	Scudder Income Fund (800-225-2470)	4.1	21.6	10.1
D	D	Southwestern Investors Income (713-757-5656)	-0.3	16.3	12.1
A +	F	Stein Roe & Farnham Balanced Fund (800-621-0320)	5.2	43.3	4.1
A +	F	Unified Mutual Shares (800-862-7283)	5.9	45.4	4.1
D	B	Wellesley Income Fund (800-523-7025)	9.3	26.1	9.1
B	F	Wellington Fund (800-523-7025)	8.6	41.3	6.1
D	F	Wisconsin Income Fund (414-272-6133)	2.5	18.9	11.1
*Fund not in operation for full period. **Funds that were not offered to the public or whose assets did exceed \$2 million before Sept. 21, 1976, or funds that were not rated because of a change in investment pol ²³ Formerly Phoenix-Chase Convertible Fund Series. ²⁴ Formerly Phoenix-Chase Balanced Fund Series.					

*Fund not in operation for full period. **Funds that were not offered to the public or whose assets did exceed \$2 million before Sept. 21, 1976, or funds that were not rated because of a change in investment policy.
²³Formerly Phoenix-Chase Convertible Fund Series. ²⁴Formerly Phoenix-Chase Balanced Fund Series.



Total assets 6/30/83 (millions)	% change '83 vs '82	Maximum sales charge	Annual expenses per \$100
\$1,172.1	17.7%	5.00%	\$0.58
211.4	112.5	8.50	0.65
50.1	48.7	7.25	0.94
8.0	25.0	7.25	1.36
228.5	40.2	8.50	0.59
214.3	37.6	7.25	0.84
43.4	47.6	8.00	0.94
38.2	25.3	8.50	1.06
2.2	29.4	7.25	0.84
59.9	23.3	7.25	0.78
126.2	55.0	7.50	0.79
64.1	41.8	8.50	1.42
113.1	38.1	7.25	0.77
35.4	82.5	8.50	1.39
347.7	57.0	8.50	0.62
155.7	28.2	6.75	0.95
77.0	39.8	7.25	0.87
13.1	29.7	8.50	0.98
25.0	26.9	8.50	1.02
42.8	69.8	4.50	1.50
49.7	45.8	8.50	0.90
23.5	25.7	6.50	1.50
3.6	24.1	5.00	1.22
3.5	66.7	8.00	1.50
15.4	40.0	4.00	1.50
123.6	—	6.50	1.21
67.3	39.9	8.50	0.89
8.1	—	8.50	1.50
\$27.6	56.8%	none	\$0.87
19.5	30.9	none	0.80
85.1	42.6	none	0.85
69.7	27.4	none	0.83
99.4	49.3	none	0.84
6.5	30.0	none	1.56
107.0	69.3	none	0.93
10.0	244.8	none	1.08
97.2	41.3	none	0.73
9.8	60.7	none	1.32
108.2	34.4	none	0.71
627.3	33.4	none	0.66
14.5	42.2	none	1.00

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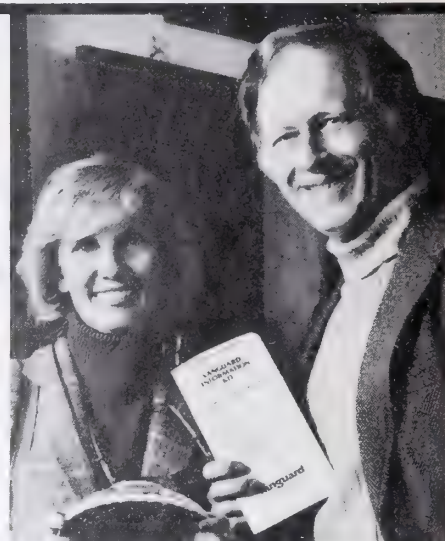
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1983 Fund Ratings

	Investment results			Total assets 6/30/83 (millions)	% change '83 vs '82	Maximum sales charge	Annual expenses per \$100
	Average	Latest 12 months					
	annual total return 1973-83	return from capital growth	return from income dividends				
Standard & Poor's 500 stock average	8.3%	53.4%	4.1%				
FORBES stock fund composite	10.8%	63.3%	2.9%				
FORBES balanced fund composite	8.8%	36.4%	7.3%				
FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%				
Balanced funds (no load)	Group averages						
	6.3%	35.5%	7.5%				
Not rated**							
Calvert Social Invest—Mgd Growth (800-368-2748)	—*	—	—*	\$ 4.6	—	none	NA
Strong Investment Fund (800-558-1030)	—*	66.1%	2.5%	11.4	533.3%	none	\$2.00
Strong Total Return Fund (800-558-1030)	—*	62.3	3.2	11.3	465.0	none	2.00
Unified Income Fund (800-862-7283)	—*	44.1	5.8	6.9	331.3	none	1.86
USAA Mutual Fund-Income Fund (800-531-8181)	—*	15.1	9.4	37.8	137.7	none	1.13
Bond and preferred stock funds (load)	Group averages						
	7.0%	21.1%	11.5%				
Not rated							
Age High Income Fund (800-227-6350)	—*	22.7%	11.5%	\$54.6	247.8%	4.00%	\$1.10
American General Capital Bond Fund (713-522-1111)	6.7%	23.9	10.9	95.0	28.2	8.50	0.76
American General High Yield Invest (713-522-1111)	—*	21.7	12.6	364.8	59.0	6.75	0.74
American National Bond Fund (409-766-6572)	—*	13.6	10.6	4.4	41.9	5.00	0.94
Axe-Houghton Income Fund (800-431-1030)	6.7	18.1	10.7	34.4	14.3	8.00	1.02
Bond Fund of America (213-486-9200)	—*	19.8	11.4	326.8	63.1	8.50	0.65
Carnegie Govt Secs Tr-Intermed Ser (800-321-2321)	—*	—	—*	10.3	—	1.00	1.00
CIGNA High Yield Fund (800-225-5151)	—*	25.2	12.7	58.3	41.9	7.50	1.10
Colonial High Yield Securities (800-225-2365)	6.0	26.1	12.8	74.4	80.2	8.50	1.11
Colonial Income Fund (800-225-2365)	6.9	21.3	11.8	168.5	17.3	8.50	0.80
Dean Witter High Yield Secs (212-938-4554)	—*	27.3	12.0	410.8	118.4	5.50	0.69
Delchester Bond Fund (800-523-1918)	8.0	31.3	11.0	41.2	62.9	8.50	0.90
Federated High Income Secs (800-245-5051)	—*	21.5	12.6	113.5	57.0	6.50	1.15
First Investors Bond Apprec Fund (212-825-7900)	—*	19.7	10.1	71.5	68.6	7.25	1.04
First Investors Fund for Income (212-825-7900)	9.4	17.8	13.6	789.6	53.1	8.50	0.89
Franklin Custodian US Govt Ser (800-227-6350)	4.5	14.4	10.9	116.4	1,193.3	4.00	0.99
Fund for U S Govt Securities (800-245-5051)	6.4	23.2	9.0	54.9	8.9	4.50	1.39
John Hancock Bond Fund (617-421-4506)	—*	17.7	11.4	604.1	65.3	8.00	0.85
John Hancock US Govt Secs Fund (617-421-4506)	5.5	5.0	11.7	62.9	148.6	8.00	1.18
High Income Shares (800-221-5757)	—*	21.8	12.9	64.8	119.7	7.25	1.10
High Yield Securities (713-626-1919)	—*	26.8	11.8	101.2	22.1	6.50	1.07
IDS Bond Fund (612-372-3131)	—*	27.0	12.1	1,052.7	63.8	3.50	0.60
Investment Quality Interest (800-231-4645)	—*	17.8	11.4	69.5	131.7	4.50	1.06
Investors Selective Fund (612-372-3131)	8.4	29.8	11.3	782.9	44.3	5.00	0.60
JP Income Fund (919-378-2448)	—*	20.8	10.4	22.6	-16.6	8.00	0.70
Kemper High Yield Fund (800-621-1048)	—*	27.8	12.2	182.4	53.5	6.75	0.75
Kemper Inc & Capital Preserv Fund (800-621-1048)	—*	20.2	12.1	97.0	25.7	6.00	0.62
Kemper US Govt Secs Fund (800-621-1048)	—*	12.7	11.5	135.4	762.4	4.00	0.63
Lord Abbett Bond Debenture Fund (212-425-8720)	10.6	30.0	9.6	211.7	35.4	8.50	0.71
Mass Finl Bond Fund (800-343-2829)	—*	21.1	11.3	247.6	40.8	7.25	0.84
Mass Finl High Income Tr (800-343-2829)	—*	40.3	11.5	311.5	112.8	7.25	1.03
Mass Finl Intl Tr-Bond Portfolio (800-343-2829)	—*	17.6	8.7	41.4	27.8	7.25	1.33
Merrill Lynch Corp Bond Hi Income (800-225-5150)	—*	21.3	12.3	251.9	26.8	4.00	0.85

*Fund not in operation for full period. **Funds that were not offered to the public or whose assets did not exceed \$2 million before Sept. 21, 1976, or funds that were not rated because of a change in investment policy. NA: Not available.

	Investment results			Total assets		Maximum sales charge	Annual expense per \$100
	Average annual total return	Latest 12 months return from capital growth	Latest 12 months return from income dividends	6/30/83 (millions)	% change '83 vs '82		
	1973-83						
Standard & Poor's 500 stock average	8.3%	53.4%	4.1%				
FORBES stock fund composite	10.8%	63.3%	2.9%				
FORBES balanced fund composite	8.8%	36.4%	7.3%				
FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%				
Bond and preferred stock funds (load)							
	Group averages						
	7.0%	21.1%	11.5%				
Not rated							
Merrill Lynch Corp Bond Hi-Qual (800-225-5150)	—*	13.8%	12.0%	\$118.8	97.7%	4.00%	\$0.85
Merrill Lynch Corp Bond-Intermed (800-225-5150)	—*	10.9	12.1	34.0	309.6	2.00	0.24
Monthly Income Shares (800-221-5757)	—*	26.6	10.8	41.3	28.3	8.50	0.92
National Bond Fund (800-223-7757)	6.4%	22.7	13.0	196.3	73.4	7.25	0.81
National Preferred Fund (800-223-7757)	7.9	25.8	9.8	3.5	25.0	7.25	0.88
Nationwide Bond Fund (800-848-0920)	—*	15.7	10.7	4.8	220.0	7.50	0.84
NEL Income Fund (617-267-6600)	—*	14.0	10.7	34.9	30.7	8.00	0.90
Oppenheimer High Yield Fund (800-525-7048)	—*	21.6	13.5	412.2	191.3	6.75	0.96
Phoenix High Qual Bond Fund Series (800-243-1574)	—*	—	—*	2.5	—	7.00	NA
Phoenix High Yield Fund ²⁵ (800-243-1574)	—*	19.6	12.3	35.8	132.5	7.00	1.43
Pioneer Bond Fund (800-225-6292)	—*	18.3	10.9	13.7	39.8	8.50	1.00
Prudential-Bache Govt Secs Intermed (800-221-7984)	—*	—	—*	34.1	—	1.00	0.41
Prudential-Bache High Yield Fund ²⁶ (800-221-7984)	—*	19.9	12.6	213.5	86.6	6.75	0.94
Prudential-Bache Quality Inc Fund ²⁷ (800-221-7984)	—*	7.7	10.9	15.5	134.9	6.75	1.51
Putnam High Yield Trust (800-343-0929)	—*	32.2	12.1	540.3	82.4	6.75	0.71
St Paul Income Fund (612-738-4000)	—*	17.8	10.4	14.8	70.1	6.00	1.12
Security Bond Fund (800-255-3557)	—*	15.1	12.2	31.7	17.4	4.75	0.79
Sentinel Bond Fund (802-229-3900)	5.0	14.8	11.6	13.2	36.1	8.50	0.91
Shearson High Yield Fund (212-577-5794)	—*	23.8	12.1	142.6	124.9	5.00	0.95
Sigma Income Shares (800-441-9490)	—*	22.9	10.2	19.9	30.1	8.50	0.80
United Bond Fund (816-283-4000)	6.7	25.0	11.7	309.1	36.5	8.50	0.52
United High Income Fund (816-283-4000)	—*	23.1	12.5	476.6	82.3	8.50	0.90
Venture Income (+) Plus (505-983-4335)	—*	22.8	12.8	20.3	97.1	8.50	1.87
Bond and preferred stock funds (no load)							
	Group averages						
	7.2%	16.2%	10.8%				
Not rated							
Aetna Income Shares (203-273-4806)	—*	16.3%	10.3%	\$126.1	182.7%	÷	\$0.25
Alliance Bond Fund (212-269-1500)	—*	16.3	11.2	14.8	17.5	none	1.00
American Investors Income Fund (800-243-5353)	—*	36.5	10.7	18.2	44.4	none	1.56
Babson (DL) Income Trust (800-821-5591)	6.2%	15.0	11.3	36.3	34.0	none	0.75
Boston Co Govt Income Fund (800-343-6324)	—*	10.7	7.7	5.3	82.8	none	1.50
Calif Fund-Intermed & LT U S Govt ²⁸ (800-321-0718)	—*	13.3	10.0	4.6	-4.2	none	1.90
Calvert Income Fund (800-368-2748)	—*	—	—*	7.3	—	none	NA
Capital Preserv Treasury Note Tr (800-227-8380)	—*	7.0	9.7	10.3	32.1	none	1.00
Columbia Fixed Income Secs Fund (800-547-1037)	—*	—	—*	30.8	—	none	1.06
Composite Income Fund (800-541-0830)	—*	28.8	10.4	4.3	34.4	none	1.13
Dreyfus A Bonds Plus (800-645-6561)	—*	12.9	11.4	109.5	273.7	none	0.95
Federated GNMA Trust (800-245-4270)	—*	8.2	11.7	148.9	NM	none	0.45
Federated Income Trust (800-245-4270)	—*	4.8	14.0	147.9	NM	none	0.44
Federated Intermediate Govt Tr (800-245-4270)	—*	—	—*	16.2	—	none	NA
Fidelity Corporate Bond Fund (800-225-6190)	6.9	13.9	11.4	152.8	47.5	none	0.81

*Fund not in operation for full period. †Fund not currently selling new shares. ²⁵Formerly Phoenix-Chase High Yield Fund. ²⁶Formerly Chancellor High Yield Fund. ²⁷Formerly Chancellor Quality Income Fund. ²⁸Formerly California Fund for Inv in US Govt Secs. NA: Not available NM: Not meaningful.

1983 Fund Ratings

Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1973-83	Latest 12 months return from capital growth	return from income dividends	6/30/83 (millions)	% change '83 vs '82		
		Standard & Poor's 500 stock average	8.3%	53.4%	4.1%				
		FORBES stock fund composite	10.8%	63.3%	2.9%				
		FORBES balanced fund composite	8.8%	36.4%	7.3%				
		FORBES bond and preferred stock fund composite	7.6%	19.8%	11.4%				
Bond and preferred stock funds (no load)			Group averages						
			7.2%	16.2%	10.8%				
Not rated									
		Fidelity Govt Secs Fund Ltd (800-225-6190)	—*	10.8%	10.8%	\$ 82.3	23.8%	none	\$0.91
		Fidelity High Income Fund (800-225-6190)	—*	27.2	12.3	221.6	92.7	none	0.83
		Fidelity Thrift Trust (800-225-6190)	—*	10.3	11.1	96.7	56.7	none	0.70
		Financial Bond Shares (800-525-7069)	—*	12.9	11.1	8.1	84.1	none	0.00
		Hutton Investment-Bond & Inc Ser (212-742-5000)	—*	11.5	11.0	162.9	498.9	none	1.88
		Keystone Custodian Funds-B-1 (800-343-2898)	7.9%	24.0	10.3	58.5	25.3	none	0.74
		Keystone Custodian Funds-B-2 (800-343-2898)	9.7	28.6	10.9	81.9	25.6	none	0.70
		Keystone Custodian Funds-B-4 (800-343-2898)	10.0	27.4	10.7	431.9	23.1	none	0.67
		Lexington GNMA Income Fund (800-526-4791)	—*	10.0	10.7	19.1	247.3	none	1.59
		Liberty Fund (800-225-1596)	2.2	22.8	7.7	8.6	17.8	none	1.50
		Midwest Inc Tr-Intermed Govt Fund (800-543-0407)	—*	3.4	10.4	28.3	335.4	none	1.01
		Mutual of Omaha America Fund (800-228-9596)	—*	-0.7	10.4	20.7	132.6	none	1.38
		North Star Bond Fund (612-371-7780)	—*	18.8	10.4	13.0	49.4	none	0.90
		Northeast Investors Trust (800-225-6704)	7.8	24.2	11.8	175.2	39.2	none	0.69
		T Rowe Price New Income Fund (800-638-5660)	—*	9.6	12.3	687.2	70.1	none	0.59
		PRO Income Fund (800-523-0864)	—*	25.7	9.5	24.1	23.0	none	1.16
		Qualified Dividend-Portfolio II (800-523-7025)	—*	19.3	11.0	56.7	112.4	none	0.75
		SAFECO Special Bond Fund (800-426-6730)	—*	11.7	9.0	2.2	46.7	none	1.00
		Steadman Associated Fund (800-424-8570)	7.2	33.3	7.7	34.4	20.3	none	1.78
		SteinRoe Bond Fund (800-621-0320)	—*	13.6	10.7	84.1	197.2	none	0.79
		Transamerica New Income (800-631-0749)	6.8	13.9	11.1	4.7	30.6	none	1.50
		20th Century US Governments (816-531-5575)	—*	—	—*	15.1	—	none	1.02
		The Value Line Bond Fund (800-223-0818)	—*	17.1	10.9	59.9	129.5	none	0.83
		Vanguard Fixed Income Secs-GNMA (800-523-7025)	—*	12.4	12.1	123.5	302.3	none	0.57
		Vanguard Fixed Income Secs-Hi Yield (800-523-7025)	—*	15.3	14.1	72.1	365.2	none	0.71
		Vanguard Fixed Income Secs-Invest Gr (800-523-7025)	—*	14.1	11.8	65.2	67.2	none	0.75
		Vanguard Fixed Income Secs-ST (800-523-7025)	—*	—	—*	157.9	—	none	0.51
Stock funds (closed end)			Group averages					% prem (+) or disc (-)	
			13.9%	63.8%	3.3%				
C	C	The Adams Express Co (301-752-5900)	12.9%	45.2%	5.4%	\$376.2	44.3%	-13.2%	\$ 0.56
A	A	ASA Limited (212-754-9375)	24.4	113.0	4.8	642.9	113.0	+1.2	0.25
C	B	Baker, Fentress & Co (312-236-9190)	13.5	63.9	3.0	360.5	61.4	-27.1	0.46
A+	F	Central Securities (212-688-3011)	14.9	75.0	2.6	103.7	68.3	-21.3	0.89
C	A	Claremont Capital (206-324-0901)	14.7	37.7	5.3	41.1	33.0	-23.0	1.14
A+	D	General American Investors (212-949-2800)	14.0	73.5	1.6	280.3	70.3	-4.2	1.53
B	A	Highland Capital Corp (212-832-3112)	15.4	109.9	none	15.9	109.2	+28.4	6.67
D	A	The Japan Fund (212-757-7087)	10.8	33.1	1.0	238.5	29.1	-5.2	0.71
B	D	The Lehman Corp (800-221-5350)	10.7	63.4	3.7	795.6	58.1	-10.5	0.51
A	F	Niagara Share Corp (716-856-2600)	11.0	64.7	2.0	186.6	60.2	-4.7	1.28
B	C	Petroleum & Resources Corp (301-752-5900)	14.6	32.3	4.8	266.9	45.9	+0.3	0.59

*Fund not in operation for full period.



Performance in UP markets			Investment results			Total assets 6/30/83 (millions)			Annual expenses per \$100
			Average annual total return 1973-83	Latest 12 months return from capital growth	return from income dividends				
in DOWN markets							% change '83 vs '82	% prem (+) or disc (-)	
Standard & Poor's 500 stock average			8.3%	53.4%	4.1%				
FORBES stock fund composite			10.8%	63.3%	2.9%				
FORBES balanced fund composite			8.8%	36.4%	7.3%				
FORBES bond and preferred stock fund composite			7.6%	19.8%	11.4%				
Stock funds (closed end)			Group averages						
			13.9%	63.8%	3.3%				
D	A	Source Capital (800-421-4374)	20.7%	42.4%	6.9%	\$256.3	26.5%	-9.6%	\$0.99
A +	F	Spectra Fund (800-223-3810)	10.9	93.7	none	5.9	96.7	-54.1	3.10
C	F	Tri-Continental Corp (800-221-2450)	9.6	64.1	3.8%	1,078.1	57.8	-15.5	0.58
C	D	US & Foreign Securities (212-754-9374)	10.1	48.9	3.9	192.4	39.6	-6.0	1.15
Not rated**									
CL Assets (800-225-1596)			—*	NM	none	22.0	74.6	+125.2	1.60
Engex (800-221-4333)			—*	150.0	none	27.7	149.6	-38.4	0.76
Equity Strategies Fund (213-613-8656)			—*	49.8	3.2	8.0	50.9	-18.5	1.50
The Mexico Fund (212-692-8177)			—*	-39.6	14.2	22.6	-39.6	+121.2	3.29
Nautilus Fund (617-482-8260)			—*	91.1	0.6	28.9	91.4	+12.3	1.45
Balanced funds (closed end)			Group averages						
			15.3%	45.5%	5.0%				
A +	B	American General Convertible Secs (713-522-1111)	16.4%	46.9%	7.5%	\$77.9	43.5%	+7.7%	\$0.91
A +	D	Bancroft Convertible Fund (212-269-9236)	13.2	44.1	5.9	48.6	46.0	-9.6	1.60
A	B	Castle Convertible Fund (800-223-3810)	16.4	47.5	6.6	38.0	38.7	-4.2	1.39
D	•F	Cyprus Corp (617-482-6500)	—*	43.5	none	29.2	-35.3	NM	2.33
Bond and preferred stock funds (closed end)			Group averages						
			8.5%	22.2%	11.8%				
Not rated									
American General Bond Fund (713-522-1111)			7.7%	23.8%	12.1%	\$190.5	24.9%	-7.8%	\$0.75
Bunker Hill Income Securities (213-613-7054)			—*	20.2	12.9	46.1	20.1	-7.4	0.94
Circle Income Shares (317-639-8177)			—*	21.2	11.1	29.5	24.5	+3.9	0.75
CNA Income Shares (212-952-5000)			—*	24.8	12.3	54.4	25.6	-7.4	0.97
Current Income Shares (213-480-6748)			—*	27.8	11.6	37.4	27.7	-6.9	1.00
Drexel Bond-Debtenture Trading Fund (215-545-4100)			8.0	25.3	10.9	45.1	25.3	+0.2	1.26
Excelsior Income Shares (212-425-7120)			—*	20.8	12.0	37.5	21.0	-7.7	0.93
Federated Income & Priv Placement (800-245-2423)			9.0	19.7	13.0	41.7	23.4	-7.9	1.55
Fort Dearborn Income Securities (312-346-0676)			6.8	26.6	11.3	85.7	26.6	-5.5	0.84
John Hancock Income Securities (617-421-2909)			—*	25.0	11.8	133.4	25.3	-10.0	0.80
John Hancock Investors (617-421-2909)			8.5	19.8	11.7	125.1	21.8	-7.8	0.81
Hatteras Income Securities (704-333-7808)			—*	23.7	11.3	45.4	24.0	-0.1	0.98
INA Investment Securities (203-726-7800)			—*	20.5	11.8	75.1	23.1	-3.6	0.95
Independence Square Inc Secs (302-792-8800)			7.4	22.3	12.4	28.4	22.9	-5.3	1.13
InterCapital Income Securities (212-938-4554)			—*	24.8	12.0	173.0	28.7	-1.9	0.71
Lincoln National Direct Placement (219-427-3655)			11.0	25.9	11.4	58.0	26.1	-16.5	1.02
MassMutual Corporate Investors (413-788-8411)			12.5	24.3	11.0	108.7	24.4	-13.9	1.09
MassMutual Income Investors (413-788-8411)			8.0	16.6	11.7	116.0	18.3	+1.6	1.05
Montgomery St Income Securities (415-982-8020)			—*	24.2	11.6	142.6	24.1	-5.3	0.71
Mutual of Omaha Interest Shares (800-228-9596)			7.4	13.6	11.4	80.5	15.7	-2.9	0.84
Pacific American Income Shares (213-449-0309)			—*	22.4	11.8	80.4	22.4	-12.8	0.78
Paul Revere Investors (617-799-4441)			8.4	8.3	12.0	39.0	8.6	-5.5	1.39
St Paul Securities (800-328-1064)			7.8	18.9	11.6	103.3	19.8	-5.9	0.98
State Mutual Securities (800-251-4653)			—*	19.6	12.0	86.1	19.6	-5.7	1.15

•Fund rated for two periods only, maximum allowable rating A. *Fund not in operation for full period. **Funds that were not offered to the public or whose assets did not exceed \$2 million before Sept. 21, 1976, or funds that were not rated because of a change in investment policy. NM: Not meaningful.

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F-8-83

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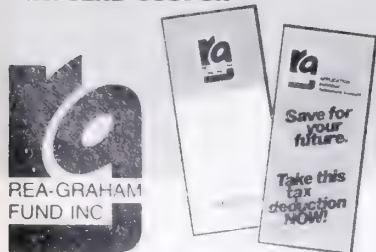
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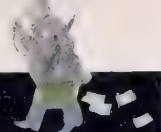
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Send for a free brochure and prospectus containing more complete information including charges and expenses. Read it carefully before deciding to invest. Send no money.

1983 Fund Ratings

		Investment results		
		Average annual total return 1973-83	Latest 12 months return from capital growth	return from income dividends
Standard & Poor's 500 stock average		8.3%	53.4%	
FORBES stock fund composite		10.8%	63.3%	
FORBES balanced fund composite		8.8%	36.4%	
FORBES bond and preferred stock fund composite		7.6%	19.8%	1
Bond and preferred stock funds (closed end)		Group averages		
		8.5%	22.2%	1
Not rated				
Transamerica Income Shares (800-631-0749)		9.1%	30.0%	1
USLIFE Income Fund (212-709-6616)		7.8	23.6	1
Vestaur Securities (215-567-2000)		7.8	25.3	1
Kind of shares	Dual purpose funds	Group averages		
		7.7%	151.2%	1
Capital	Gemini Fund (800-523-7025)	12.8%	76.2%	no
Income	Gemini Fund (800-523-7025)	—	—	1
Capital	Hemisphere Fund (800-225-1596)	2.6	226.1	no
Income	Hemisphere Fund (800-225-1596)	—	—	1
Exchange funds		Group averages		
		7.9%	57.5%	
Not rated				
American General Exchange Fund (713-522-1111)		—*	51.5%	
Capital Exchange Fund (617-482-8260)		8.1%	56.6	
Chestnut St Exchange Fund (302-792-8800)		—*	60.4	
Depositors Fund of Boston (617-482-8260)		7.2	63.4	
Diversification Fund (617-482-8260)		7.3	61.8	
Exchange Fund of Boston (617-482-8260)		8.5	64.8	
Federated Exchange Fund (800-245-2423)		—*	47.8	
Fidelity Congress Street Fund (800-225-6190)		5.5	39.7	
Fidelity Exchange Fund (800-225-6190)		—*	51.9	
Fiduciary Exchange Fund (617-482-8260)		10.3	75.2	
Second Fiduciary Exchange Fund (617-482-8260)		7.7	65.0	
State Street Exchange Fund (617-482-3920)		—*	55.2	
State Street Growth Fund ²⁹ (617-482-3920)		8.7	54.2	
Vance, Sanders Exchange Fund (617-482-8260)		—*	57.1	
Portfolio avg maturity (days)	Money market funds†	Date started		
These funds invest primarily in US government and federal agency obligations				
42	Active Assets Govt Securities Trust (800-221-3778)	7/81	—	
34	Alliance Govt Reserves-US Govt (800-223-6300)	7/79	—	
52	Alliance Govt Reserves-US Treasury (800-223-6300)	11/82	—*	
38	Alpha Cash Mgmt Fund-Govt Secs(800-241-1662)	10/81	—	
26	American Express Govt Money Fund (800-343-1300)	6/82	—	
27	Automated Govt Money Trust (800-245-4270)	8/82	—	
23	Boston Co Govt Money Fund (800-343-6324)	5/82	—	
29	Alex Brown Cash Res Fund-Govt Ser (800-638-4276)	4/82	—	
*Fund not in operation for full period. †Most funds are no load. Some funds are offered as part integrated financial services account which has a minimum initial investment. ²⁹ Formerly Federal Fund. NA: Not available.				



Total assets			Annual expenses per \$100
6/30/83 (millions)	% change '83 vs '82	% Prem (+) or disc (-)	

\$103.8	30.1%	-3.6%	\$0.71
50.1	24.9	-8.2	1.32
72.8	27.5	-9.1	1.10

\$119.0	52.4%	-4.9%	\$0.91
		+40.1	
25.1	26.8	+13.8	1.01
		-13.8	

Maximum sales charge

\$56.6	38.7%	none	\$0.73
67.9	42.7	none	0.70
130.2	46.8	none	0.66
60.5	47.2	none	0.76
63.1	35.4	none	0.75
59.1	48.5	none	0.76
93.6	21.7	none	1.09
44.6	20.5	none	0.84
126.4	37.7	none	0.66
54.2	60.4	none	0.77
70.4	47.3	none	0.72
131.5	44.8	none	0.58
244.2	32.6	none	0.55
151.1	50.1	none	0.72

Minimum initial investment

\$111.9	11.8%	none+	\$0.75
158.8	-25.3	none	0.92
5.2	—	none	0.92
2.6	-46.9	\$1,000	1.00
15.7	55.5	1,000	0.75
47.2	—	100,000	0.75
29.7	350.0	1,000	0.75
63.4	34.9	1,500	0.51

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*According to the July 18, 1983, Donoghue's Money Fund Report, the Fund had the best investment performance for the 12 months ending May 31, 1983.

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for the 5 years ended 12/31/82

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for the 10 years ended 12/31/82

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F-8/29/83



1983 Fund Ratings

Portfolio average maturity (days)		Investment results						
		Date started	Latest 12 months		Total assets		Minimum initial investment	Annual expenses per \$100
			return from capital growth	return from income dividends	6/30/83 (millions)	% change '83 vs '82		
	Standard & Poor's 500 stock average			4.1%				
	FORBES stock fund composite			2.9%				
	FORBES balanced fund composite			7.3%				
	FORBES bond and preferred stock fund composite			11.4%				
Money market funds†								
These funds invest primarily in US government and federal agency obligations								
40	Calvert Cash Res-US Treas Portfolio (800-368-2748)	11/82	—	—*	\$ 4.6	—	\$2,000	NA
33	Capital Preservation Fund (800-227-8380)	10/72	—	7.9%	1,677.5	-14.6%	1,000	\$0.81
3	Capital Preservation Fund II (800-227-8380)	6/80	—	8.2	624.9	-44.1	5,000	0.83
18	Cardinal Govt Securities Tr (800-848-7734)	9/80	—	9.0	302.1	-15.1	1,000	0.75
15	Carnegie Govt Secs Trust-MM Series (800-321-2321)	4/80	—	8.5	169.1	-17.2	1,000	0.70
40	Cash Equiv Fund-Govt Sec Portfolio (800-621-1048)	12/81	—	8.6	405.5	-13.0	1,000	0.71
13	Centennial Government Trust (800-525-9311)	11/81	—	7.6	9.1	33.8	none†	1.37
39	CMA Govt Securities Fund (800-262-4636)	8/81	—	8.7	1,237.3	26.3	none†	0.55
16	Command Government Fund (800-222-4321)	2/82	—	8.3	52.8	877.8	none†	0.02
30	Composite US Govt Securities (800-541-0830)	9/82	—	—*	2.7	—	1,000	NA
40	Current Interest-US Govt Portfolio (713-751-2400)	9/82	—	—*	39.0	—	1,000	NA
42	Daily Cash Government Fund (800-525-9310)	3/82	—	7.9	59.3	-23.4	500	0.96
44	DBL Cash Fund-Govt Secs Portfolio (212-480-4155)	3/82	—	8.7	174.1	59.7	1,000	0.66
43	Dean Witter/Sears US Govt MM Tr ³⁰ (800-621-2525)	2/82	—	8.1	325.5	0.9	1,000	1.07
26	Delaware Treasury Reserves (800-523-4640)	4/82	—	8.7	65.9	260.1	1,000	0.80
66	Dreyfus MM Instru-Govt Sec Series (800-645-6561)	5/79	—	9.2	875.0	32.1	2,500	0.62
45	Equitable Govt Securities Account (800-223-0970)	6/83	—	—*	10.0	—	1,000	NA
24	Fidelity MM Trust-US Govt Port (800-225-6190)	5/79	—	8.8	633.5	-8.4	250,000	0.42
9	Fidelity MM Trust-US Treasury Port (800-225-6190)	4/81	—	8.6	167.2	-2.4	250,000	0.42
16	Fidelity US Government Reserves (800-225-6190)	11/81	—	8.5	290.3	-4.5	1,000	0.86
3	Financial Planners Fed Secs Fund (800-424-8570)	2/80	—	8.2	11.9	-24.2	500	1.10
1	First Trust MM Fund-Govt Port ³¹ (800-621-4770)	11/80	—	7.7	3.5	-34.0	none	1.53
21	First Variable Rate Fund for Govt Inc (800-368-2748)	12/76	—	8.8	815.7	-42.0	2,000	0.78
44	Florida Mutual US Govt Sec-ST (305-522-0200)	10/80	—	7.8	5.3	-44.2	1,000	1.52
4	Franklin Federal Money Fund (800-227-6781)	5/80	—	7.6	111.5	-28.3	500	0.90
32	Fund for Government Investors (202-861-1800)	3/75	—	8.5	922.1	-29.7	2,500	0.62
32	GEICO Invest Ser Tr-Govt Secs Cash (301-986-2500)	2/82	—	8.8	73.8	8.1	1,000	0.80
1	GIT Cash Trust-Govt MM Fund (800-336-3063)	12/82	—	—*	11.3	—	1,000	1.69
13	Government Investors Trust (800-336-3063)	7/79	—	9.2	403.4	-42.3	2,000	0.97
26	Government Money Instruments Tr (412-288-1450)	6/82	—	8.3	78.6	NM	1,000	0.39
31	Gradison US Government Trust (800-543-1818)	4/82	—	8.2	21.4	-2.3	1,000	1.00
1	Great Lakes Money Fund (800-862-7283)	1/82	—	8.6	4.6	-31.3	1,000	1.09
24	Hilliard-Lyons Government Fund ³² (800-626-2023)	1/81	—	8.2	130.2	-37.4	3,000	0.75
16	Wayne Hummer Money Fund Tr-Govt (800-621-4477)	4/82	—	7.4	2.8	-76.9	1,000	1.00
30	Hutton Government Fund (212-742-6003)	6/82	—	9.1	631.1	352.1	10,000	0.72
30	IDS Govt Securities Money Fund (800-328-8300)	3/82	—	8.5	17.9	-44.1	2,000	0.74
40	Kemper Govt MM Fund (800-621-1048)	11/81	—	8.4	83.0	-20.0	1,000	0.89
19	Kidder Peabody Govt Money Fund (212-635-5081)	5/83	—	—*	23.3	—	1,500	NA
21	Lehman Government Fund (800-221-5350)	10/81	—	8.2	105.9	-34.3	2,500	0.87
34	Lexington Govt Securities MM Fund ³³ (800-526-4791)	1/82	—	8.1	20.7	-25.8	1,000	1.08
38	Mass Cash Mgmt Tr-Govt Series (800-343-2829)	2/82	—	8.2	16.5	-9.8	1,000	0.71
41	Merrill Lynch Government Fund (800-225-1576)	9/77	—	8.5	1,538.6	-2.3	5,000	0.45
38	Merrill Lynch USA Govt Reserves (800-221-7210)	11/82	—	—*	108.1	—	5,000	NA
16	Midwest Inc Tr-ST Govt Fund (800-543-0407)	12/74	—	8.4	163.9	-39.7	1,000	0.94
17	The Money Fund of US Treas Secs (800-523-0864)	3/82	—	6.9	5.9	9.3	2,000	2.00

*Fund not in operation for full period. †Most funds are no load. Some funds are offered as part of an integrated financial services account which has a minimum initial investment. NA: Not available. ³⁰Formerly Sears US Government Money Market Trust. ³¹Formerly Principal Protection Government Investment Fund. ³²Formerly Hilliard-Lyons Cash Management. ³³Formerly ASTA Government Securities Money Market Fund. NM: Not meaningful.



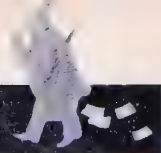
Portfolio average maturity (days)	Investment results							
	Date started	Latest 12 months		Total assets		Minimum initial investment	Annual expenses per \$100	
		return from capital growth	return from income dividends	6/30/83 (millions)	% change '83 vs '82			
	Standard & Poor's 500 stock average			4.1%				
	FORBES stock fund composite			2.9%				
	FORBES balanced fund composite			7.3%				
	FORBES bond and preferred stock fund composite			11.4%				
Money market funds†								
These funds invest primarily in US government and federal agency obligations								
40	Nationwide US Govt MM Fund (800-848-0920)	11/82	—	—*	\$ 2.3	—	\$1,000	\$1.00
42	NEL Cash Mgt Tr-US Govt Series (800-225-7670)	6/82	—	8.2%	25.2	869.2%	1,000	0.75
30	Oppenheimer US Government Trust (800-525-7048)	7/82	—	—*	7.6	—	1,000	1.08
33	Paine Webber RMA Money-US Govt (800-762-1000)	10/82	—	—*	68.2	—	none†	0.50
40	T Rowe Price US Treas Money Fund (800-638-5660)	6/82	—	8.1	113.2	2,802.6	2,000	0.51
30	Prime Government Money Fund (800-328-4891)	10/82	—	—*	4.9	—	1,000	0.09
35	Prudential-Bache Govt Secs Tr-MM ³⁴ (800-221-7984)	1/82	—	8.3	216.5	-15.0	1,000	0.59
83	Renaissance Assets Trust-Govt (800-521-1264)	7/82	—	—*	20.7	—	1,000	0.98
1	Reserve CPA-Govt Portfolio (212-246-3550)	10/82	—	—*	14.1	—	1,000	NA
2	The Reserve Fund-Govt Portfolio (800-223-5547)	10/81	—	8.4	272.2	-24.7	1,000	0.78
40	Scudder Government Money Fund (800-225-2470)	11/81	—	8.2	141.1	19.1	1,000	0.78
35	Selected MM Fund-Govt Port (800-621-7321)	5/82	—	7.7	5.4	125.0	1,000	1.04
29	Seligman Cash Mgmt-Govt Port (800-221-2450)	9/82	—	—*	11.4	—	1,000	1.38
41	Shearson FMA Government Fund (800-221-3636)	2/82	—	8.2	66.8	588.7	none†	0.75
42	Shearson Govt and Agencies (212-577-5794)	10/80	—	8.8	908.4	8.3	5,000	0.64
37	Short Term Inc Fund-US Govt Port(212-370-1240)	11/82	—	—*	33.8	—	5,000	NA
7	Sigma Govt Securities Fund (800-441-9490)	9/80	—	7.7	3.0	-25.0	500	0.80
27	SteinRoe Government Reserves (800-621-0320)	9/82	—	—*	12.3	—	2,500	2.29
45	Strategic Treasury Positions (800-527-5027)	11/81	—	7.4	8.0	-5.9	1,000	1.10
40	Tucker Anthony Govt Secs Fund (800-225-6258)	2/82	—	8.3	81.5	-7.2	2,500	0.80
111	USAA Mutual Fund-Fed Secs MM (800-531-8181)	1/83	—	—*	2.8	—	1,000	NA
41	United Services Gp-US Treas Secs (800-531-5777)	2/82	—	7.1	37.6	623.1	1,500	1.64
33	Vanguard Money Market Tr-Fed Port (800-523-7025)	7/81	—	8.6	356.2	-27.9	1,000	0.49
These funds invest primarily in obligations exempt from federal income tax								
48	Active Assets Tax-Free Trust (800-221-3778)	7/81	—	5.3	183.4	517.5	none†	0.79
74	Alliance Tax-Exempt Reserves (800-223-6300)	1/83	—	—*	68.3	—	none	NA
30	D L Babson Tax-Free Inc Fund-MM (800-821-5591)	2/81	—	5.0	3.2	23.1	1,000	0.75
76	Calvert Tax-Free Reserves-MM Port(800-368-2748)	4/81	—	5.6	126.0	121.8	2,000	0.91
46	Carnegie Tax Free Income Trust (800-321-2321)	8/82	—	—*	50.1	—	5,000	NA
79	Centennial Tax Exempt Trust (800-525-9310)	9/81	—	5.0	42.2	248.8	none†	0.75
74	CIGNA Tax-Exempt Cash Fund (800-225-5151)	10/82	—	—*	9.2	—	5,000	0.86
41	CMA Tax-Exempt Fund (800-262-4636)	1/81	—	5.3	2,536.2	201.2	none†	0.50
91	Command Tax-Free Fund (800-222-4321)	2/82	—	4.9	116.9	5,213.6	none†	0.00
36	Current Interest-Tax Free Portfolio (713-751-2400)	5/83	—	—*	21.6	—	1,000	NA
111	Daily Cash Tax Exempt Fund (303-740-1568)	1/81	—	5.0	74.9	172.4	5,000	0.88
62	Daily Tax Free Income Fund (212-370-1240)	11/82	—	—*	214.1	—	5,000	0.76
66	DBL Tx-Fr Cash Fund (800-272-2700)	4/83	—	—*	38.5	—	1,000	NA
49	Dean Witter/Sears Tx-Fr Daily ³⁵ (800-221-2685)	2/81	—	5.7	263.1	83.3	5,000	0.67
97	Delaware Tax-Free Money Fund (800-523-4640)	9/81	—	5.4	34.0	123.7	5,000	0.81
82	Dreyfus Tax Exempt MM Fund (800-223-5255)	8/80	—	5.6	1,512.2	121.4	5,000	0.58
66	Eaton Vance Tax Free Reserves (800-225-6265)	12/82	—	—*	15.1	—	1,000	NA
24	Equitable Tax-Free Account (800-223-0970)	6/83	—	—*	10.2	—	1,000	NA
57	Federated Tax-Free Trust (800-245-4270)	3/79	—	5.3	3,098.2	21.4	25,000	0.45
74	Fidelity Tax-Exempt MM Tr (800-225-6190)	1/80	—	5.5	1,955.1	57.9	10,000	0.37
52	Franklin Tax-Exempt Money Fund (800-227-6781)	2/82	—	5.3	62.8	287.7	500	0.80

*Fund not in operation for full period. †Most funds are no load. Some funds are offered as part of an integrated financial services account which has a minimum initial investment. ³⁴Formerly Chancellor Government Securities Trust. ³⁵Formerly InterCapital Tax-Free Daily Income Fund. NA: Not available

1983 Fund Ratings

Portfolio average maturity (days)	Investment results							
	Date started	Latest 12 months		Total assets		Minimum initial investment	Annual expenses per \$100	
		return from capital growth	return from income dividends	6/30/83 (millions)	% change '83 vs '82			
	Standard & Poor's 500 stock average			4.1%				
	FORBES stock fund composite			2.9%				
	FORBES balanced fund composite			7.3%				
	FORBES bond and preferred stock fund composite			11.4%				
Money market funds†								
These funds invest primarily in obligations exempt from federal income tax								
84	GIT Tax-Free Trust MM (800-336-3063)	12/82	—	—*	\$ 8.9	—	\$2,000	NA
77	IDS Tax-Free Money Fund (800-328-8300)	8/80	—	5.6%	61.6	102.6%	2,000	\$0.64
36	Lehman Tax-Free Money Mkt Fund (800-221-5350)	10/82	—	—*	102.2	—	2,500	0.44
85	Lexington Tax Free Money Fund ³⁶ (800-526-4791)	10/77	—	5.7	50.8	183.8	1,000	1.09
85	MFS Muni Working Capital Tr ³⁷ (800-343-2829)	3/80	—	5.0	8.3	72.9	1,000	1.00
51	Midwest Gp Tax Free Tr-MM Port ³⁸ (800-543-8721)	9/81	—	5.2	21.6	2.4	2,500	0.81
87	Municipal Cash Reserve Mgmt (212-742-6003)	5/81	—	5.7	691.5	203.0	10,000	0.61
59	MuniFund (800-221-8120)	2/80	—	5.2	1,094.8	7.0	5,000	0.36
71	NEL Tax Exempt MM Trust (800-225-7670)	4/83	—	—*	6.7	—	1,000	NA
40	Nuveen Tax-Exempt MM Fund (800-621-2431)	4/81	—	5.6	905.3	160.9	25,000	0.45
65	Nuveen Tax-Free Reserves (800-621-7210)	11/82	—	—*	53.2	—	1,000	NA
51	Paine Webber RMA Tax-Free Fund (800-762-1000)	10/82	—	—*	110.8	—	none†	NA
61	Parkway Tax-Free Reserves ³⁹ (800-441-7786)	3/81	—	5.0	29.6	52.6	1,000	1.00
93	T Rowe Price Tax-Exempt Money Fd (800-638-5660)	4/81	—	5.9	636.4	306.4	2,000	0.70
108	Prudential-Bache Tax-Free Money ⁴⁰ (800-528-6166)	8/79	—	5.3	143.9	88.1	2,500	0.73
88	Scudder Tax Free Money Fund (800-225-2470)	1/80	—	5.0	149.6	13.4	1,000	0.67
58	Shearson Daily Tax-Free Dividend (212-577-5794)	10/82	—	—*	79.2	—	5,000	0.75
63	Shearson FMA Municipal Fund (800-221-3636)	3/82	—	4.9	131.4	63.2	none†	0.75
32	SteinRoe Tax-Exempt Money Fund (800-621-0320)	3/83	—	—*	65.8	—	2,500	NA
98	Tax-Exempt Money Market Fund (800-621-1048)	7/82	—	—*	145.8	—	1,000	0.74
53	Tax Free Cash Reserve-Gen Ser (800-638-4276)	3/83	—	*	31.7	—	10,000	0.35
30	Tax-Free Instruments Trust (800-245-5048)	12/82	—	—*	71.2	—	1,000	NA
65	The Tax Free Money Fund (800-522-7405)	4/81	—	5.2	225.7	137.6	5,000	0.58
106	Tucker Anthony Tax Exempt Money (800-225-6258)	12/82	—	—*	31.4	—	2,500	0.28
70	Vanguard Muni Bond-Money Market (800-523-7025)	5/80	—	5.6	281.9	124.1	3,000	0.48
345	Vanguard Muni Bond-Short Term (800-523-7025)	9/77	—	6.7	327.2	102.5	3,000	0.48
These funds invest in various types of money market instruments								
42	Active Assets Money Trust (800-221-3778)	7/81	—	9.4	1,272.3	68.6	none†	0.59
46	Alliance Capital Reserves (800-221-5672)	7/78	—	8.9	862.2	-42.7	none	0.79
40	Alpha Cash Mgmt Fund-MM Portfolio (800-241-1662)	10/81	—	8.4	2.2	-82.4	1,000	1.00
22	American Express Money Fund (800-343-1300)	6/82	—	9.3	27.4	171.3	1,000	0.75
16	American General Reserve Fund (713-522-1111)	7/74	—	9.5	260.9	-36.9	1,000	0.87
78	American National Money Market Fund	12/81	—	9.7	15.6	25.8	2,000	0.76
24	Automated Cash Management Trust (800-245-4270)	5/82	—	8.7	71.9	382.6	100,000	0.87
22	Axe-Houghton Money Market Fund (800-526-3187)	9/81	—	8.7	34.3	172.2	1,000	0.75
32	DL Babson MM Fund-Prime Portfolio (800-821-5591)	3/80	—	9.3	70.4	-18.4	1,000	0.75
22	Birr, Wilson Money Fund (415-983-7700)	3/81	—	8.7	74.2	-37.2	1,000	0.90
20	BLC Cash Management Fund (800-247-4123)	2/83	—	—*	7.8	—	1,000	0.50
27	Boston Co Cash Mgmt Fund (800-343-6324)	8/79	—	9.6	268.4	-5.4	1,000	0.73
30	Alex Brown Cash Res Fund-Prime Ser (800-638-4276)	8/81	—	9.4	572.0	-5.8	1,500	0.58
13	RC Brown Money Market Fund (212-248-5987)	6/82	—	8.0	15.1	125.4	100	1.00
24	Calvert Cash Reserves-Prime Port (800-368-2748)	11/82	—	—*	12.3	—	2,000	NA
23	Calvert Social Invest Fund-MM Port(800-368-2748)	11/82	—	—*	15.5	—	1,000	NA
17	CAM Fund ⁴¹ (800-423-2345)	10/81	—	8.6	11.8	40.5	500	1.18
18	Capital Cash Management Trust (212-697-6666)	7/74	—	9.1	135.1	-13.6	1,000	0.67
36	Cash Equiv Fund-MM Portfolio (800-621-1048)	3/79	—	9.9	4,117.5	0.6	1,000	0.62

*Fund not in operation for full period. †Most funds are no load. Some funds are offered as part of an integrated financial service account which has a minimum initial investment. ³⁶Formerly Lexington Tax Free Daily Income Fund. ³⁷Formerly MFS Tax-Exempt Money Market Trust. ³⁸Formerly Fourth Tax Free Inc. Tax Free Money Mkt Portfolio. ³⁹Formerly INA Tax-Free Reserves. ⁴⁰Formerly Chancellor Tax-Free Money Fund. ⁴¹Formerly Pennsylvania Money Fund. NA: Not available.



Portfolio average maturity (days)	Investment results							
	Date started	Latest 12 months		Total assets		Minimum initial investment	Annual expenses per \$100	
		return from capital growth	return from income dividends	6/30/83 (millions)	% change '83 vs '82			
	Standard & Poor's 500 stock average			4.1%				
	FORBES stock fund composite			2.9%				
	FORBES balanced fund composite			7.3%				
	FORBES bond and preferred stock fund composite			11.4%				
Money market funds†								
These funds invest in various types of money market instruments								
19	Cash Mgmt Trust of America (800-421-0180)	11/76	—	9.3%	\$535.5	-26.8%	\$5,000	\$0.54
34	Cash Reserve Management (212-742-6003)	1/77	—	9.6	4,783.4	-33.6	10,000	0.42
26	Centennial Money Market Trust (800-525-9310)	11/81	—	9.0	148.8	313.3	none†	1.07
20	Chancellor Cash Fund (800-528-6166)	4/82	—	9.2	18.9	190.8	1,000	0.60
26	CIGNA Cash Fund (800-225-5151)	10/82	—	—	22.7	—	5,000	0.78
23	CIGNA Money Market Fund ⁴² (800-225-5151)	1/75	—	9.5	258.1	-8.5	500	0.55
39	CMA Money Fund (800-262-4636)	9/77	—	9.4	11,900.0	-14.4	none†	0.44
30	Colonial Money Market Trust (800-225-2365)	1/81	—	9.0	10.5	-23.9	3,000	1.07
29	Columbia Daily Income Co (800-547-1037)	11/74	—	8.7	451.3	-52.1	1,000	0.74
31	Command Money Fund (800-222-4321)	2/82	—	9.3	441.9	1,223.1	none†	0.50
26	Composite Cash Management (800-541-0830)	11/79	—	9.1	167.2	-52.5	1,000	0.91
33	Connecticut Mutual Liquid Acct (800-243-0064)	3/82	—	9.1	49.8	43.9	1,000	1.00
18	Country Capital MM Fund (309-557-2444)	10/81	—	8.8	22.1	18.8	1,000	0.96
34	Current Interest-MM Portfolio (800-231-4645)	6/74	—	9.2	1,157.8	-25.4	1,000	0.62
24	Daily Cash Accumulation (800-525-9310)	7/78	—	9.1	3,294.4	-39.4	500	0.59
26	Daily Dollar Reserves (800-221-3079)	6/83	—	—*	25.9	—	5,000	NA
33	Daily Income Fund (212-370-1240)	7/74	—	9.0	496.5	-36.9	5,000	0.70
31	Daiwa Money Fund ⁴³ (800-221-4099)	12/81	—	9.5	30.4	39.5	2,500	0.94
48	DBL Cash Fund-MM Portfolio (212-480-4155)	2/81	—	9.5	907.8	-8.2	1,000	0.66
40	Dean Witter/Sears Liquid Asset Fund (800-221-2685)	9/75	—	9.5	6,062.6	-35.5	5,000	0.50
40	Delaware Cash Reserve (800-523-4640)	6/78	—	9.7	1,380.2	-39.7	1,000	0.78
15	Dollar Reserves (800-431-6060)	6/80	—	9.2	103.1	-8.6	1,000	1.04
51	Dreyfus Liquid Assets (800-645-6561)	1/74	—	9.8	8,039.1	-19.5	2,500	0.67
60	Dreyfus MM Instru-MM Series (800-645-6561)	4/75	—	9.5	1,137.4	-53.3	50,000	0.50
27	Eaton Vance Cash Mgmt Fund ⁴⁴ (617-482-8260)	1/75	—	9.1	178.8	-35.6	1,000	0.69
31	EGT Money Market Trust (800-245-5048)	4/81	—	9.1	92.4	-39.7	5,000	0.92
34	Equitable Money Market Account (800-223-0970)	10/80	—	9.3	278.1	-26.9	1,000	0.85
36	Fahnestock Daily Income Fund (212-668-8178)	6/81	—	9.1	137.6	-12.8	1,000	0.77
22	FBL Money Market Fund (800-247-4170)	3/81	—	8.7	38.5	-31.1	1,500	0.96
38	Fidelity Cash Reserves (800-225-6190)	5/79	—	9.6	3,260.9	-15.7	1,000	0.87
35	Fidelity Daily Income Trust (800-225-6190)	5/74	—	9.6	2,631.9	-29.1	10,000	0.54
31	Fidelity MM Tr Domestic Port (800-225-6190)	5/79	—	9.4	1,479.1	20.4	250,000	0.42
22	Financial Daily Income Shares (800-525-7069)	3/76	—	9.3	196.8	-36.3	1,000	0.56
27	First American Money Fund (800-328-6020)	4/82	—	9.5	37.6	67.1	1,000	0.80
22	First Investors Cash Mgmt Fund (212-825-7900)	10/78	—	9.1	377.7	-40.3	1,000	0.85
17	Founders Money Market Fund (800-525-2440)	7/81	—	8.1	16.7	38.0	1,000	0.80
35	Franklin Money Fund (800-227-6781)	1/76	—	8.6	797.5	-34.6	500	0.79
46	General Money Market Fund (800-223-5682)	2/82	—	9.4	189.0	126.9	2,500	1.01
17	GI Cash Trust-Regular MM Fund (800-336-3063)	12/82	—	—*	10.8	—	1,000	NA
33	Gradison Cash Reserves Trust (800-543-1818)	5/76	—	9.1	455.8	-36.7	1,000	0.80
24	The Guardian Cash Management Tr (800-221-3253)	9/82	—	—*	6.2	—	1,000	NA
48	John Hancock Cash Management Tr (617-421-2909)	10/79	—	8.8	441.1	-39.7	1,000	0.78
32	Home Life Money Management Fund (800-221-5733)	5/82	—	9.2	10.0	75.4	1,000	0.75
21	Wayne Hummer Money Fund Tr-MM (800-621-4477)	4/82	—	8.8	56.8	8.6	1,000	0.97
21	Hutton AMA Cash Fund (800-334-4636)	3/82	—	9.5	173.8	1,831.1	none†	0.92

*Fund not in operation for full period. †Most funds are no load. Some funds are offered as part of an integrated financial service account which has a minimum initial investment. ⁴²Formerly CG Money Market Fund. ⁴³Formerly D & D Money Fund. ⁴⁴Formerly Eaton & Howard Cash Management Fund. NA: Not available.

1983 Fund Ratings

Portfolio average maturity (days)		Investment results			Total assets		Minimum initial investment	Annual expenses per \$100
		Date started	Latest 12 months return from capital growth	Latest 12 months return from income dividends	6/30/83 (millions)	% change '83 vs '82		
	Standard & Poor's 500 stock average			4.1%				
	FORBES stock fund composite			2.9%				
	FORBES balanced fund composite			7.3%				
	FORBES bond and preferred stock fund composite			11.4%				
Money market funds†								
These funds invest in various types of money market instruments								
34	Hutton Invest-Short Term Invest Ser (212-742-5000)	1/82	—	8.3%	\$ 66.4	47.2%	\$ 500	\$2.12
44	IDS Cash Management Fund (800-328-8300)	10/75	—	9.6	902.4	-29.6	2,000	0.59
28	ED Jones Daily Passport Cash Tr (314-576-0100)	5/80	—	9.1	542.3	-35.1	5,000	0.92
36	Kemper Money Market Fund (800-621-1048)	11/74	—	10.0	3,435.0	-3.4	1,000	0.52
29	Keystone Liquid Trust ⁴⁵ (800-343-2898)	7/75	—	9.0	239.5	-37.7	1,000	0.94
29	Legg Mason Cash Reserve Trust (800-245-5048)	10/78	—	8.9	213.0	-36.9	5,000	0.82
24	Lehman Cash Management Fund (800-221-5350)	1/81	—	9.3	660.0	-29.9	2,500	0.70
36	Lexington Money Market Trust (800-526-4791)	7/78	—	9.4	236.5	-27.1	1,000	0.93
27	Liberty Cash Management Fund (800-221-2450)	9/82	—	—*	12.6	—	1,000	1.50
27	Liquid Capital Income Trust (800-321-2322)	11/74	—	9.2	1,408.5	-33.5	1,000	0.62
36	Liquid Green Trust (800-862-7283)	11/80	—	9.2	122.3	-9.3	1,000	0.93
32	Lord Abnett Cash Reserve Fund (800-221-9995)	7/79	—	8.9	228.1	-40.7	1,000	0.86
42	Managed Cash Account Trust (800-343-2829)	1/82	—	9.0	30.5	117.9	1,000	1.00
36	Mass Cash Mgmt Tr-Prime Series (800-343-2829)	12/75	—	9.4	721.1	-26.8	1,000	0.68
27	MassMutual Liquid Assets Tr (800-451-1713)	8/82	—	—*	19.0	—	1,000	0.69
32	McDonald Money Market Fund (212-715-6213)	5/81	—	8.9	141.3	-32.0	5,000	0.71
29	Merrill Lynch Institutional Fund (800-225-1576)	12/74	—	9.2	1,042.1	-10.8	25,000	0.53
38	Merrill Lynch Ready Assets Trust (800-221-7210)	2/75	—	9.4	13,864.6	-37.4	5,000	0.43
34	Merrill Lynch Retire Res Money Fund (212-692-1807)	4/82	—	8.9	1,092.7	103.1	300	1.02
23	Midwest Income Tr-Cash Mgmt Fund (800-543-8721)	1/82	—	9.1	42.3	19.5	1,000	0.81
27	Money Market Instruments Trust (800-245-0242)	3/82	—	9.0	147.1	9.0	1,000	0.83
28	Money Market Management (800-245-2423)	1/74	—	9.1	292.5	-44.2	1,000	0.95
18	Money Shares (800-221-5757)	1/78	—	8.3	10.3	-41.5	1,000	1.23
23	MoneyMart Assets (800-221-7984)	6/76	—	9.5	2,625.9	-33.7	1,000	0.43
14	Morgan Keegan Daily Cash Trust (800-245-5051)	12/80	—	9.0	63.3	-38.9	5,000	0.98
29	Mutual of Omaha Cash Reserve Fund (800-228-9596)	3/81	—	8.6	20.7	-13.0	none†	1.19
35	Mutual of Omaha MM Account (800-228-9596)	7/79	—	9.1	312.6	-36.5	1,000	0.76
47	National Cash Reserves (800-223-7757)	4/82	—	9.3	31.0	18.8	1,000	0.57
36	National Liquid Reserves (800-221-2990)	8/74	—	9.6	1,537.4	-20.9	1,000	0.60
35	Nationwide Money Market Fund ⁴⁶ (800-848-0920)	3/80	—	9.3	395.1	-12.7	1,000	0.74
39	NEL Cash Mgmt Tr-MM Series (800-225-7670)	7/78	—	9.5	688.2	-12.4	1,000	0.55
40	Newton Money Fund Portfolio (414-347-1141)	10/81	—	8.9	11.1	26.1	1,000	1.00
27	Nuveen Cash Reserves (800-621-7227)	11/82	—	—*	6.6	—	1,000	NA
23	Offerman Money Market Fund (612-541-8952)	6/81	—	8.9	8.4	-38.2	2,000	0.81
24	Oppenheimer Money Market Fund (800-525-7048)	4/74	—	9.3	1,064.8	-35.1	1,000	0.64
15	Oxford Cash Management Fund (800-441-7764)	2/83	—	—*	99.5	—	1,000	NA
32	Paine Webber CASHFUND (212-437-5306)	5/78	—	9.2	4,386.6	-31.6	5,000	0.49
35	Paine Webber RMA Money-MM Port (800-762-1000)	10/82	—	—*	222.4	—	none†	0.49
29	Parkway Cash Fund ⁴⁷ (800-441-7786)	11/79	—	9.2	442.6	-40.9	1,000	0.81
25	Phoenix Money Market Fund Series ⁴⁸ (800-243-1574)	7/80	—	9.2	39.1	-35.3	1,000	0.75
31	Plimoney Fund (713-757-5656)	3/80	—	8.8	45.2	-32.1	1,000	1.00
43	T Rowe Price Prime Reserve Fund (800-638-1527)	3/76	—	9.6	2,530.6	-27.0	2,000	0.67
24	Prime Cash Fund (800-437-1000)	4/83	—	—*	94.9	—	1,000	NA
29	Putnam Daily Dividend Trust (800-343-0929)	9/76	—	9.6	300.6	-18.7	1,000	0.78
12	Renaissance Assets Tr-MM Port (800-521-1264)	7/82	—	—*	39.7	—	1,000	1.01
29	The Reserve Fund-Prime Portfolio (800-223-5547)	11/71	—	9.5	2,010.7	-31.3	1,000	0.75

*Fund not in operation for full period. †Most funds are no load. Some funds are offered as part of an integrated financial service account which has a minimum initial investment. ⁴⁵Formerly American Liquid Trust. ⁴⁶Formerly MIF Nationwide Money Market Fund. ⁴⁷Formerly INA Cash Fund.

⁴⁸Formerly Phoenix-Chase Money Market Fund. NA: Not available.



Investment results

Latest 12 months

Date started	return from capital growth	return from income dividends	Total assets		Minimum initial investment	Annual expenses per \$100
			6/30/83 (millions)	% change '83 vs '82		
Standard & Poor's 500 stock average	53.4%	4.1%				
FORBES stock fund composite	63.3%	2.9%				
FORBES balanced fund composite	36.4%	7.3%				
FORBES bond and preferred stock fund composite	19.8%	11.4%				

Money market funds†

These funds invest in various types of money market instruments

27	LF Rothschild Earnings and Liquidity (212-425-3300)	4/82	—	9.2%	\$360.2	43.2%	\$2,500	\$0.77
22	SAFECO Money Market Mutual Fund (800-426-6730)	4/82	—	9.6	16.6	133.8	1,000	0.51
19	St Paul Money Fund (800-328-1064)	11/79	—	8.9	97.0	-48.8	1,000	0.74
15	Santa Fe Cash Reserves (800-545-2098)	2/82	—	8.3	5.3	-55.8	1,000	1.34
35	Scudder Cash Investment Trust (800-225-2470)	7/76	—	9.0	896.5	-30.8	1,000	0.65
13	Security Cash Fund (800-255-3509)	10/80	—	8.7	57.0	-42.3	1,000	0.94
28	Selected MM Fund-General Port (800-621-7321)	10/77	—	8.8	36.6	-47.6	1,000	1.03
28	Seligman Cash Mgmt Fd-Prime Port (800-221-2450)	1/77	—	9.1	408.3	-52.7	1,000	1.06
39	Sentinel Cash Management Fund (800-526-3032)	10/81	—	9.0	29.5	13.9	1,000	0.75
27	Sentry Cash Management Fund (800-826-0266)	6/81	—	9.1	33.0	-35.9	1,000	0.86
36	Shearson Daily Dividend (212-577-5794)	6/79	—	9.3	4,335.9	-25.6	5,000	0.65
37	Shearson FMA Cash Fund (800-221-3636)	2/82	—	9.1	451.0	0.5	none†	0.75
35	Short Term Income Fund-MM Port (212-370-1260)	1/80	—	9.1	199.4	-28.3	5,000	0.75
9	Short-Term Yield Securities (713-626-1919)	5/78	—	8.7	22.2	-51.7	1,250	1.00
13	Sigma Money Market Fund (800-441-9490)	9/80	—	8.4	8.4	-43.2	500	0.94
33	Standby Reserve Fund (212-460-0680)	11/81	—	9.2	204.8	-2.1	2,000	0.64
15	State Bond Cash Mgmt Fund (507-354-2144)	2/82	—	8.4	4.1	-6.8	1,000	1.00
27	SteinRoe Cash Reserves (800-621-0320)	10/76	—	9.3	714.6	-21.9	2,500	0.67
29	Summit Cash Reserves Fund (800-221-7210)	12/82	—*	—*	478.3	—	5,000	0.77
27	SUTRO Money Market Fund (800-652-1030)	2/82	—	9.1	100.5	-32.1	5,000	1.00
36	Transamerica Cash Reserve (800-343-6840)	8/80	—	9.4	266.0	-24.8	500	0.55
16	Trinity Liquid Assets Trust (800-441-7763)	1/83	—	—*	147.8	—	1,000	NA
27	Trust for Cash Reserves (800-245-5048)	2/80	—	9.0	165.3	-25.3	1,000	0.92
48	Tucker Anthony Cash Mgmt Fund (800-225-6258)	4/81	—	9.0	334.8	-7.0	2,500	0.86
37	United Cash Management (800-821-5664)	8/79	—	9.3	347.3	-36.3	1,000	1.03
26	USAA Mutual Fund-MM Fund (800-531-8181)	2/81	—	9.1	113.7	-27.9	1,000	0.96
26	The Value Line Cash Fund (800-847-4143)	4/79	—	9.6	468.9	-25.9	1,000	0.64
11	Vanguard MM Tr-Insured Portfolio (800-523-7025)	2/83	—	—*	10.3	—	1,000	NA
35	Vanguard MM Tr-Prime Portfolio (800-523-7025)	6/75	—	9.5	935.4	-22.4	1,000	0.49
29	Webster Cash Reserve (212-635-5055)	8/79	—	9.3	1,151.4	-16.7	1,500	0.64
14	Ziegler Money Market Trust (800-245-5048)	4/81	—	8.9	77.8	-44.3	3,000	1.06

Municipal bond funds

Maximum sales charge

American General Muni Bond Fund (713-522-1111)	11/76	23.6%	8.8%	\$ 52.8	126.6%	4.75%	\$ 0.80
D L Babson Tax-Free Inc Fund-LT (800-821-5591)	2/80	19.6	9.0	10.6	202.9	none	0.75
D L Babson Tax-Free Inc Fund-ST (800-821-5591)	2/80	6.7	6.9	5.1	121.7	none	0.75
Bullock Tax-Free Shares (800-221-5757)	2/77	21.9	8.7	44.6	91.4	4.75	0.98
Calif Tax Exempt Bonds (800-223-7757)	5/83	—	—*	12.3	—	5.25	NA
Calvert Tax-Free Reserves-Ltd Term (800-368-2748)	4/81	4.6	6.8	53.7	471.3	none	1.00
CIGNA Municipal Bond Fund ⁴⁹ (800-225-5151)	3/77	15.9	9.7	135.1	94.4	7.50	0.68
Composite Tax-Exempt Bond Fund (800-541-0830)	1/77	17.4	9.4	63.2	3,226.3	none	0.32
Country Cap Tax Exempt Bond Fund (309-557-2444)	11/78	22.5	6.7	3.6	100.0	5.00	1.50
Dean Witter Tax Exempt Secs ⁵⁰ (800-221-2685)	3/80	21.7	8.4	113.1	148.6	4.00	0.70
DMC Tax-Free Income Tr-Penn (800-523-1918)	3/77	22.9	8.7	44.5	87.8	4.50	0.81

*Fund not in operation for full period. †Most funds are no load. Some funds are offered as part of an integrated financial service account which has a minimum initial investment. ⁴⁹Formerly CG Municipal Bond Fund. ⁵⁰Formerly InterCapital Tax Exempt Securities. NA: Not available.

1983 Fund Ratings



Investment results

Latest 12 months

Date started	return from capital growth	return from income dividends	Total assets		Maximum sales charge	Annual expenses per \$100
			6/30/83 (millions)	% change '83 vs '82		
Standard & Poor's 500 stock average	53.4%	4.1%				
FORBES stock fund composite	63.3%	2.9%				
FORBES balanced fund composite	36.4%	7.3%				
FORBES bond and preferred stock fund composite	19.8%	11.4%				

Municipal bond funds

Dreyfus Tax Exempt Bond Fund (800-645-6561)	10/76	20.5%	9.0%	\$1,750.1	105.4%	none	\$0.75
Eaton Vance Municipal Bond Fund ⁵¹ (800-225-6265)	3/78	25.0	8.0	12.7	71.6	3.75%	0.63
Federated Tax-Free Income Fund (800-245-5051)	10/76	26.5	7.8	49.0	35.7	4.50	1.60
Fidelity High Yield Munis (800-225-6190)	12/77	19.0	9.6	639.9	210.6	none	0.64
Fidelity Limited Term Munis (800-225-6190)	4/77	13.4	8.1	168.7	207.9	none	0.99
Fidelity Municipal Bond Fund (800-225-6190)	8/76	20.3	8.7	662.7	65.3	none	0.62
Financial Tax-Free Inc Shares (800-525-9831)	8/81	17.3	9.0	61.7	189.7	none	0.56
First Investors Tax Exempt Fund (800-223-6300)	8/77	22.5	8.3	189.5	209.1	7.25	1.29
Franklin Calif Tax-Free Inc Fund ⁵² (800-227-6350)	2/77	10.8	10.1	1,338.0	1,774.0	4.00	0.75
Franklin NY Tax-Free Income Fund (800-227-6781)	9/82	—	—*	43.8	—	4.00	NA
GIT Tax-Free Tr-High Yield Fund (800-336-3063)	12/82	—	—*	22.5	—	none	NA
John Hancock Tax-Exempt Inc Tr (617-421-4506)	1/77	14.4	8.7	127.3	265.8	8.00	0.84
IDS High Yield Tax-Exempt Fund (800-328-3800)	5/79	22.4	9.4	1,070.4	180.8	5.00	0.64
IDS Tax-Exempt Bond Fund (800-328-3800)	12/76	23.6	8.9	384.2	104.6	5.00	0.65
Kemper Calif Tax-Free Inc Fund (800-621-1048)	1/83	—	—*	26.3	—	4.50	NA
Kemper Municipal Bond Fund (800-621-1048)	4/76	24.3	9.4	328.3	97.7	4.75	0.56
Keystone Tax Free Fund (800-225-2618)	1/78	21.5	8.7	51.3	136.4	none	1.15
Merrill Lynch Muni Bd Fd-High Yield (212-692-2939)	11/79	19.5	10.0	292.9	233.6	4.00	0.75
Merrill Lynch Muni Bd Fd-Insured (212-692-2939)	11/77	19.3	9.5	540.9	412.2	4.00	0.91
Merrill Lynch Muni Bd Fd-Ltd Mty (212-692-2939)	11/79	0.8	7.5	460.4	137.3	1.00	0.54
MFS Managed Municipal Bond Trust (800-343-2829)	10/76	25.6	8.8	213.6	104.6	4.75	0.84
Midwest Gp Tax Free Tr-Ltd Term ⁵³ (800-543-8721)	9/81	2.5	6.5	13.7	234.2	none	0.90
Mut of Omaha Tax-Free Inc Fund (800-228-9596)	1/77	14.7	9.0	86.3	133.2	8.00	0.84
National Secs Tax Exempt Bonds (800-225-7670)	11/76	21.8	8.5	32.0	91.6	5.25	0.99
NEL Tax Exempt Bond Fund (800-225-7670)	5/77	23.0	9.7	57.5	188.9	4.50	0.82
New York Muni Fund (800-221-2990)	4/81	12.6	8.0	55.6	705.8	none	1.92
Nuveen Municipal Bond Fund (800-621-7227)	11/76	20.1	7.9	255.4	65.0	none	0.74
Oppenheimer Tax-Free Bond Fund (800-525-7048)	10/76	27.2	8.5	54.6	90.9	4.50	0.92
T Rowe Price Tax-Free Inc Fund (800-638-5660)	11/76	19.9	8.9	972.6	193.8	none	0.65
Prudential-Bache High Yield Muni ⁵⁴ (800-221-7984)	6/80	19.7	9.2	180.5	215.0	4.50	0.72
Putnam Calif Tax Exempt Income (800-343-0929)	6/83	—	—*	248.7	—	4.75	NA
Putnam Tax Exempt Income Fund (800-343-0929)	11/76	31.9	8.5	82.4	120.9	4.75	0.75
SAFECO Municipal Bond Fund (800-426-6730)	11/81	22.5	8.9	30.8	413.3	none	0.72
Scudder Managed Municipal Bonds (800-225-2470)	10/76	22.8	9.4	450.5	192.9	none	0.65
Selected Tax-Exempt Bond Fund (800-621-7321)	10/77	17.1	7.8	4.2	90.9	none	0.54
Shearson Managed Municipals (212-577-5794)	3/81	21.0	9.0	160.3	215.6	5.00	0.88
Sigma Tax-Free Bond Fund (800-441-9490)	8/79	24.0	7.4	5.5	161.9	4.75	1.52
SteinRoe Tax-Exempt Bond Fund (800-621-0320)	2/77	25.8	8.4	194.3	186.2	none	0.74
Tax-Exempt Bond Fund of Amer (800-421-0180)	10/79	22.1	8.1	90.7	297.8	4.75	0.95
United Municipal Bond Fund (800-821-5664)	11/76	17.0	8.8	177.8	139.6	4.00	0.76
USAA Tax-Exempt Fund-High Yield (800-531-8181)	3/82	15.0	9.0	80.2	1,062.3	none	1.09
USAA Tax-Exempt Fund-Intermed (800-531-8181)	3/82	11.2	8.8	45.7	872.3	none	1.18
USAA Tax-Exempt Fund-Short Term (800-531-8181)	3/82	1.4	7.2	35.9	248.5	none	1.15
Vanguard Muni Bond-High Yield (800-523-7025)	12/78	18.8	9.2	149.9	190.5	none	0.48
Vanguard Muni Bond-Intermediate (800-523-7025)	9/77	13.7	8.1	140.0	287.8	none	0.48
Vanguard Muni Bond-Long Term (800-523-7025)	9/77	18.1	8.9	225.4	154.1	none	0.48

Fund not in operation for full period. ⁵¹Formerly Vance, Sanders Municipal Bond Fund. ⁵²Formerly Franklin Tax-Free Income Fund. ⁵³Formerly Fourth St Tax Free Trust-Ltd Term Portfolio. ⁵⁴Formerly Chancellor High Yield Municipals. NA: Not available.

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Bud Hunter and Dan Hillenbrand want your body in their hospital beds. But, just in case, they sell coffins, too.

Till death do us part

By Jill Bettner

THESE TWO MIDWESTERN competitors are determined to get you one way or the other, coming or going. Down in Batesville, Ind., 4,100 souls and 20 minutes through the hills from the banks of the Ohio, there's Hillenbrand Industries, 100 years old, \$400 million-plus sales, the biggest maker of electric hospital beds, the biggest casketmaker and—the Hillenbrands don't miss many tricks—the owner of American Tourister luggage. About 275 miles away,

in Springfield, Ill.—Lincoln land—there's upstart Amedco Inc., up from nothing to number two in beds and caskets in just 13 months.

This is only the beginning, vows the catch-up kid, Amedco's chairman, president and chief executive, B.D. (Bud) Hunter.

Hunter, 53, and Dan Hillenbrand, 60, chairman and son of his company's founder, knew each other long before they became competitors. As a consultant for nearly two decades to some of Hillenbrand's best casket customers, the funeral directors,

Hunter used to be invited to the company's southern Indiana farm for lavish parties. "We haven't exactly had tea together lately," Hunter says.

Hunter lifted Amedco out of near-obscure with two big acquisitions over the past 13 months: a stretch financially, but they pushed sales up 50% last year, to \$120 million, while earnings went up 43%, to \$4.5 million or \$1.30 a share. As a result, these are heady days for Amedco. The stock, traded on the Amex, hit 48 just before a 2-for-1 split Aug. 1, following a 3-for-2 split last December. Two years ago shares traded under \$5. And Hunter still owns 24% of Amedco's 4 million shares.

But Hillenbrand is no pushover. It is considered among the best-managed smallish companies, with profits of \$31 million, \$3.09 a share, last year on \$389 million in sales. Hunter, who has side interests in real estate, enjoys the chase. He chatted with *FORBES* at Amedco's headquarters, an 1860s mansion he bought and restored, close to the state capitol in downtown Springfield. Outside the company, he has formed a limited partnership to turn a nearby block of old buildings into an enclosed promenade with shops and restaurants on the order of Boston's Faneuil Hall.

Hunter and his three division managers, who are investors in that or



Amedco's Bud Hunter in front of his 19th-century-mansion headquarters in Springfield, Ill.
"We haven't exactly had tea together lately."

other renovation projects, can use the tax shelter. They draw no salary from Amedco. Instead, Hunter takes 5% of the parent company's first \$1 million of pretax net for the year, 4% of its second \$1 million, 3% of each \$1 million after that. His three division heads earn the same percentages of the profits contributed by the businesses they manage.

Hunter formed Amedco in 1969 and, with \$500,000 of his own money and \$2.4 million from Houston's American General Life Insurance Co., began buying hospital supply and casket businesses, also expanding into steel processing for his own caskets and sale to other steel users.

In 1972 Hunter took Amedco public, selling 13% of its stock to the public, which paid 14 times earnings and almost 3 times book value for the shares. By 1981 he was ready to do battle with Hillenbrand in earnest. First, he raised \$5 million with a stock offering twice as large as Amedco's initial one. Next he persuaded Borg-Warner Corp. to take \$10 million in stock and a \$1.5 million note for its \$24 million-sales-a-year health products division, the biggest competitor of Hillenbrand's Hill-Rom Co. in hospital beds.

The deal gave Borg-Warner its 24% stake in Amedco. Far from letting this be a source of anxiety, Hunter makes it a point of pride. "It was a real vote of confidence," says the Missouri farmer's son who worked his way through Northeast Missouri State College in 2½ years pumping gas.

Hunter then bought Gulf & Western's casketmaking operations, buying its casket inventory cheap, dumping the coffins on the market, and buying the rest of the company for \$12.6 million in cash and notes.

"Amedco used the company's inventories to buy the company itself," says Abraham Karp, vice president of research at Gintel & Co., a Greenwich, Conn. brokerage firm. "Amedco has made every \$1 do the work of \$5."

Dan Hillenbrand was not amused. His highly automated plants make him the lowest-cost producer. But having to match Amedco's giveaways on the caskets squeezed his margins. "We caught them off guard," Hunter gloats now. Remember, this is a business undergoing shakeout. Cremation is cutting into the burial business, and nobody wants to lose market share.

Hillenbrand, though, still dominates the competition with its new robot- and computer-equipped factory in Campbellsville, Ky., and gets 30% of the business for anything more than a pine box. Technology has kept

it king of the hill. When Amedco began scoring heavily in the market with brushed steel caskets, Hillenbrand followed but sidestepped the costly hand steel finishing of its competitor with a programmable sander for applying the brush finish. "We had to grab market share quickly," Dan Hillenbrand says. "We elected to do it through automation or not at all."

The company, which has \$67 million in cash and marketable securities, and long-term debt equal to only 27% of equity, has made only one acquisition in its history, but it is out shopping now. How? By taking a this-is-what-we-want brochure to investment bankers. "We think it's the intelligent way to do it," says Dan Hillenbrand. What does he want? Something in metal product manufacturing in an industry "characterized by slow and evolutionary development, not subject to a high rate of technological change." Hillenbrand's profits in the first half were up only 4%, to \$15.2 million, or \$1.52 a share, on a matching rise in sales to \$207 million. Analysts see full-year earnings of \$3.50 for the family-dominated firm. (Family members hold 63% of the shares, and Dan's nephew Gus, 42, is president and heir apparent.) Karp expects Amedco's full-year earnings to be about \$1.75 a share.

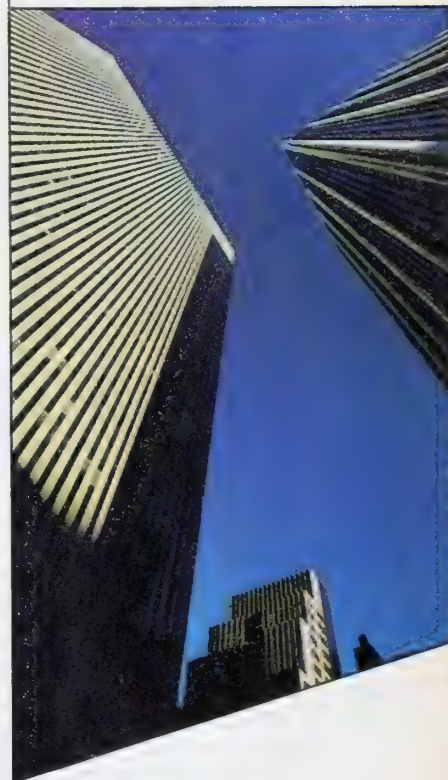
But there are problems in Hillenbrand's hospital bed business, which accounts for 27% of its total volume. Two children died after becoming trapped in the mechanical underpinnings. Although the bed controls have been changed, there still are the lawsuits and publicity.

Meanwhile, back at Amedco, Hunter just raised \$15 million in fresh cash in the Eurodollar market with long-term convertible bonds—pushing the company's long-term debt to 70% of equity. Another stock offering is planned for early next year. No slow-moving metal product acquisition for Bud Hunter. He plans to go into "life-care" centers, retirement villages that offer skilled nursing. Amedco's Medical Facilities, Inc. has built about a dozen of them for church groups. Now Hunter intends to become owner and operator of a bunch of his own—despite the bankruptcies and lawsuits in some such projects (see story, p. 58). "We're on the leading edge of a boom with these," he says, confidently predicting that Amedco's total sales will top \$500 million by 1987.

These companies have a bit of Aesop's tortoise and hare about them, and right now Bud Hunter's hare is leaping forward. But every tortoise has his day. ■

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Life on the dole: A humane society protects the helpless and, alas, creates them, too.

Benign unemployment

By Rosemary Brady

BEER FLOWS fast and cheap inside the Jubilee workingmen's club along the River Tyne. On what is supposed to be a quiet Monday night a couple hundred men and wives and girl friends crowd into the concert room to hear The Midas Touch, a local country-western band. In the bar, maybe 50 drinkers play bingo. Men hang about the game room, spending, laughing.

Is this a boom town? Far from it. It is northeast England, where the traditional coal mining, shipbuilding and heavy engineering industries that once made Britain wealthy are in decline. To spend years on the dole is common here. In Newcastle (pop. 283,000), the region's largest city, unemployment is 18%, compared with the national rate of 12.4%. In pockets around the yards of British Shipbuilders or the factories of Vickers Defense Systems, 30% to 70% of the men are jobless.

The dole has become a way of life here, but not altogether an uncomfortable one. "Just because the shipbuilding industry is in decline doesn't mean the people have to decline. You won't find many miserable people here," says one Geordie, as Newcastle natives are called, over his pint.

Meet, for example, Ian Bell. For 24 years Bell traveled across town to his job as an import-export clerk in the big Vickers arms factory. A year ago Vickers made him redundant, the British word for laid off. Is he depressed? Not so you would notice. "I

quite like the time off," he says.

A single man, Bell, 40, collects £25 a week—about \$40—from the government and lives with his mother, who has an \$80-a-week pension, in a \$48-a-week house provided by the local council. Someday he will look for a job, but not yet. "Today, we are going to the dogs [the dog races]," he says,



Nonworking workers of Newcastle
"There's no use being depressed."

glancing at his digital watch. "There's no use being depressed."

Mickey Marshall, 59, a former boilermaker for British Shipbuilders, volunteered for redundancy last February after 31 years of work. As a reward, British Shipbuilders slipped him more than \$15,000. This is not exceptional. All the 6,000 Newcastle shipbuilders laid off since 1979 left on a similar basis. "I still lead a full life working for the club and the [Boilermakers]

union," Marshall says.

"I know some that got redundancy payments two or three times," says Stan Scott, the local boilermakers union representative. "You don't get £2,000 in the pocket by going to work." Some, he says, buy cars or go abroad. When the money dwindles, they return.

In Britain the state pays unemployed single people over 18 at least \$32 a week. Youngsters just out of school collect \$24. The state gives unemployed married couples \$67 plus child support. People can stay on the dole forever, although the government trims a couple's benefits if one partner finds a job.

Brian Blackett, 51, an unemployed father of six children, says his wife puts his \$20 dole money and her \$60 weekly earnings from a bar job into little jars in the kitchen: one for rent, one for water taxes, one for the phone and the car. "We live right on the line," says Blackett. "If we want to buy clothes, we rob Peter to pay Paul, but we get by."

Yet no grass grows in the streets of Newcastle. While unused cranes arch

over shipyards on the east side and an obsolete Vickers factory dominates the west, the city center is a regional focus for commerce and art. A new 120-store mall generates \$400 million in revenues annually. Theaters and museums attract visitors. "The town is vibrant and alive," says Paul Sellen, deputy manager of the local Marks & Spencer. And so is his store: It is the chain's most profitable outside London. "I don't know whether it is the

black market or people spending their dole money," he confesses.

If life has been made relatively comfortable for Newcastle's chronic jobless, it is simply society's recognition that most of them are victims of social and economic change over which, as individuals, they have no control. "The problem," says David Raw, Newcastle assistant social services director, "is that we have a large work force geared to a wartime economy—shipbuilding and heavy industry—in what has become a commercial and market town."

Take Brian Blackett and his son, Peter, 19. Blackett was an electrical

engineer for C.E. Parsons Ltd. until 1970. He struggled with part-time jobs through the 1970s and hasn't worked at all since 1979. Peter, a chip off the old block, tried to find an apprenticeship in electrical engineering when he left school almost four years ago. He took three government training courses, but few companies, he says, offer apprenticeships anymore. Both father and son are on the dole.

A community center in the Blacketts' neighborhood has started workshops on anything from guitar playing to cooking to mechanics. Bill Monaghan, who runs them, says: "We are looking at this realistically and saying

there are no jobs. There may be no more jobs." He wants the unemployed to mix with each other in a community setting rather than sit isolated in their homes. "We don't want them to feel second-class citizens. We want people to share their skills in a social setting, just as they shared their skills in a work setting."

Thus does Britain make chronic unemployment relatively comfortable and humane. But, in the long run, that isn't enough. Breaking the habit of the dole and pushing citizens back into productive work must be the goal. And for all the industrial countries, not just Britain. ■

IU International has had three bosses in recent years, and each has reshaped the company in his own image.

The chameleon

By James Cook

CONGLOMERATES, much more than most corporations, tend to take on the character of their chief executives. In this sense, few conglomerates have a character of their own. Take Philadelphia's IU International. In the Sixties, its two predecessor companies reflected the asset-oriented attitudes of Philadelphia stockbroker Howard Butcher III. In the Seventies, it took on the more aggressive, harum-scarum flair of frozen foods heir John M. Seabrook. These days it's the creature of IU's rigidly precise, methodically determined chairman, John (Jack) Gilray Christy, 51.

Like a lot of conglomerators, Christy is an ITT alumnus who landed at IU in 1972 as head of the company's basic trucking division and took over as chief executive when Seabrook relinquished the post three years ago. If IU often seemed little more than a loose collection of businesses and assets under Butcher and Seabrook, under Christy it is emerg-

ing as a coherent business services company with three major lines of business: trucking, distribution and environmental controls—each interesting but for different reasons. Gone are the capital-intensive utility, shipping and manufacturing businesses that once made IU one of the most conglomerate of all conglomerates.

IU is a smaller company than it was: Last year's revenues were a shade under \$2.1 billion, vs. more than \$2.6 billion a few years back. But it has a far healthier balance sheet and a much more coherent structure. And its stock has more than doubled from the depressed levels of the late 1970s.

Trucking now accounts for half of revenues and another 24% comes from its paper and food distribution subsidiaries, Unijax and Biggers. Another 13% comes from environmental systems—International Mill Service, which reclaims scrap for the steel industry and converts slag into building materials; and Conversion Systems, which does the same for electric utility waste.

Outside the emerging new struc-

ture are two other major holdings. C. Brewer & Co., a Hawaiian sugar producer, may not make much in sugar but is cleaning up in macadamia nuts and real estate, of which it owns 97,000 acres in the islands, an acre for every 220 shares of IU stock. Besides this, there is IU's 86.6%-owned Echo Bay Mines, a new and highly profitable Canadian gold producer, which Christy decided to spin off early this month—not because it didn't fit IU's strategic plan, but because the market will value it more highly on its own.

As Jack Christy explains it, the company's new shape was the result of a classic planner's portfolio analysis. "We wanted to concentrate on the businesses that we thought had the highest return and the highest growth potential, and it turns out many of the businesses meeting these goals were similar businesses, compatible service businesses."

By eliminating capital-intensive businesses like shipping and utilities, IU greatly alleviated one of the problems that had tarnished its image on Wall Street, its debt-heavy balance sheet. Most of that debt was the inevitable burden of the electric utility and shipping businesses IU had invested its resources in. But the debt was subsidiary debt, for the most part, and so, when IU spun off its Gotaas-Larsen shipping subsidiary in 1979, it shucked off \$410 million in long-term debt in the process. More recently, it sloughed off another \$286 million when it got rid of its 58% interest in Canadian Utilities. The latter move also reduced IU's outstanding common stock since it involved a swap of IU shares for its holdings of Canadian Utilities. Last year it shifted another \$100 million off the balance sheet by selling a 50% interest in its General Waterworks subsidiary to a French company. When he was finished, Christy had cut IU's overall debt from

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\$1.2 billion in 1977 to under \$250 million this year.

Christy, meanwhile, was rebuilding the company, centering it on its \$1 billion-a-year trucking operation—Ryder Truck Lines and Pacific Inter-mountain Express, which Christy merged as Ryder/P-I-E Nationwide only last month. IU had always kept the two companies separate with the idea that one would eventually become the Cadillac of the business, the other the Chevrolet, but deregulation and the worst trucking industry price war since the Thirties ended all that.

The merger will create the second- or third-largest trucking operation in the U.S., but what really matters, Christy says, is that it will create a vastly more efficient and effective

one. The merger affords both operating economies resulting from higher lane density and consolidation economies—from reducing 487 terminals to 300, for example. As a result, Christy expects to add a couple of points to IU's never very wide trucking margins and add \$2.5 million a month to its operating profits.

As a conglomerate, IU had been one of the most successful in the business. As the 1982 Forbes Report on American Industry makes clear, IU has averaged a 23.1% return on equity over the past five years and posted a 17.1% annual average increase in earnings per share. But the winning streak ended abruptly last year with a 49% decline in IU's earnings.

Does this mean that Christy's re-

structuring was in vain? Not at all. Much of the decline stemmed from the chaos in trucking. Christy estimates 230 trucking companies have gone out of business since the industry was deregulated in mid-1980. But IU is still there, and when the shake-out is over Christy expects IU will emerge as one of the four or five nationwide carriers remaining in business. Christy concedes it may be 1985 before the industry fully recovers, but he thinks the recovery will be dramatic. "We're going to have a real turn in trucking," he says. "There's no doubt about that." For a start, IU's first-half trucking operating profits swung from last year's \$900,000 loss to a \$16.5 million operating profit, and that's before the effects of the Ryder/P-I-E merger have made themselves felt.

And so, as the economy pulls out of the recession, IU seems set for a major turnaround in both trucking and environmental systems. Most analysts are predicting IU will earn something like \$2 a share this year, up from \$1.49 in 1982. "This year we will earn 15% to 16% on our equity," Christy says. "As a corporation we think we're capable of earning over 20%, as we did in 1979, 1980 and 1981."

The intriguing question is how Christy plans to exploit IU's greatly improved balance sheet. There's no question that for the first time in years IU is in a position to make a major acquisition. Its debt has been reduced from 53% to 30% of its capitalization, its cash reserves now run somewhere in excess of \$150 million, its common stock is selling at 13 times this year's probable earnings. Then, of course, there is Brewer, the last major holding that doesn't quite fit into the new IU. And that could be sold in the future for lots of cash.

There have been rumors that Christy has his eye on Conrail, the descendant of what was once one of IU's most ambitious investments, the Penn Central railroad. Conrail is once again making money and looking for a private sector buyer. Would IU consider such a move? Christy turns coy. He says-briskly: "No comment." And when you broach the subject again: "Don't ask me about that." That probably translates as: Why wouldn't we be interested?

There's no question but that Conrail accords with what Christy thinks of as IU's management strengths. With Conrail in tow, IU would be transformed once again. And if Christy is looking for a high-risk and exhilarating opportunity to put his mark on the company, Conrail would seem to offer that in abundance. ■

"Individuals will suddenly get a notice from the IRS: 'This is your share of the increase. Please remit.'"

Partnerships under attack

By Janet Bamford

IF YOU REPORT partnership income on your tax return, watch out. IRS agents have a new weapon, and they would be happy to use it.

Partnerships, of course, don't have to pay taxes themselves. But they file returns for informational purposes, and each partner then reports his share of the income. Until now, if the IRS had problems with a partnership return, it had to deal with each partner individually. Even if the government won in Tax Court, the ruling couldn't be applied to other partners. Result: Partnership audits were time-consuming and costly—something that shielded many people from IRS scrutiny.

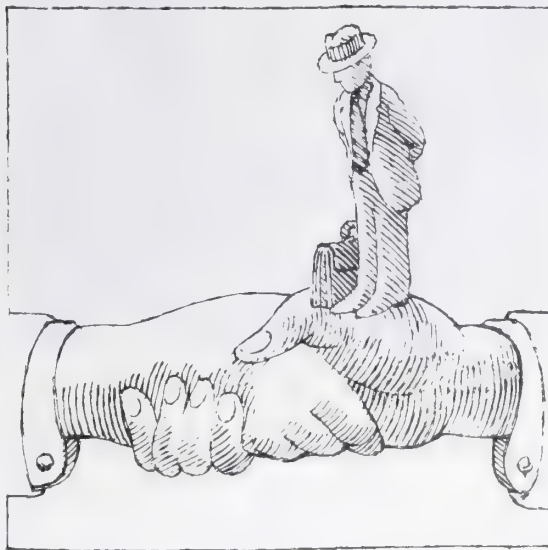
But a little-noticed provision of last year's tax reform legislation changes all this. Effective last September, every partnership of more than ten members is required to designate one person as the "tax matters partner." The IRS deals with him, and in general all decisions or settlements are binding on the group. "This is a way of getting issues resolved once and for all," says an IRS spokesman.

The objective is to crack down on abusive tax shelters, which can have thousands of partners scattered throughout the country. "What often happened was that the IRS would single out the guy who put in the most money and had the most to lose," explains Elizabeth Rockwell Brown, a tax attorney with Perkins, Coie, Stone, Olsen & Williams in Seattle. "If the IRS won, they'd try to get other

partners to settle."

Tax shelter syndicators, however, are ever optimistic. Many profess to like the new rule. They say it will allow them to fight the IRS on behalf of their investors, something that could actually help sales.

In fact, the biggest jolt might be felt by professional people—accountants, doctors and lawyers, who typically work in partnerships. "There could be lots of partnerships that don't even



notify anybody of a problem," says Brown. "Individuals will suddenly get a notice from the IRS and it'll say, 'We just audited the partnership return, and this is your share of the increase. Please remit.'"

The IRS won't begin to audit returns under the new rules until later this year, but there's tension in the air. "We're worried about it as far as our law firm goes," admits Brown.

"At this stage all we've done is designate a tax matters partner. Nobody knows how deadly this might be."

Biting back

Possibly the most controversial aspect of the new law raising some \$30 billion for the ailing Social Security system is a tax on Social Security benefits. Beginning next year taxpayers whose incomes exceed \$32,000 for a joint return or \$25,000 for an individual must pay income taxes on up to half the Social Security benefits they receive. Smart accountants, however, already are scouting for ways to lessen the burden.

The biggest concern for people trying to avoid the tax involves municipal bonds. Normally, this interest is nontaxable. But if you get Social Security, tax-exempt interest is used in determining when you are subject to the new law. The result: Even an individual whose sole income is \$25,000 in municipal bond interest will be taxed on his Social Security receipts.

Folks who think putting all their money into municipal bonds makes them invulnerable to taxes could be in for a big surprise. The calculations vary from case to case. But it could turn out that the higher interest rates paid on taxable investments will leave more money in your pocket than untaxed municipal bonds.

Unfortunately, there is little Social Security recipients can do to avoid the new tax. But there are timing considerations to keep in mind. Here are a few tips from Barry Salzberg, director of personal tax services at Deloitte Haskins & Sells:

- Take as much income as possible in 1983, before the tax starts. For example, pension plans sometimes allow you to take a lump sum or installments. If taking the payment in installments will push your total income above the untaxed base, you may prefer to take the lump sum in 1983.

- The flip side, of course, is that you should try to defer tax-deductible expenses to 1984 in order to lessen taxable income that year.

- Beware of Treasury bills or CDs that come due next year. If you are able to transfer your investment to one that matures this year, you will be better off.—Walecia Konrad

Unanticipated bad news brings down a highflyer fast. But shouldn't Reeves Communications have anticipated it?

An innocent abroad

By Subrata N. Chakravarty

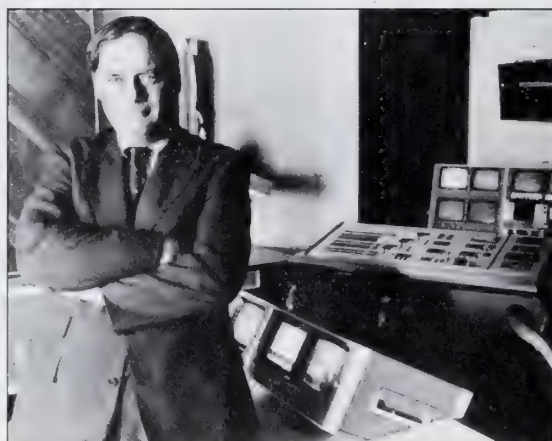
FOR SEVEN YEARS Wall Street cheered while Reeves Communications ran up one of the most dazzling growth records around (FORBES, May 26, 1980). Sales grew nearly a hundredfold, from \$2.6 million in the fiscal year ended June 1976 to \$231.1 million in the year ended June 1982. Earnings rose from \$194,000 to \$24.4 million over the same period and, adjusted for splits, the stock ran up from 65 cents a share to more than \$28 by last December.

But on Dec. 13 Chairman Marvin H. Green Jr. disclosed that, despite the optimism of earlier statements, earnings would be flat for fiscal 1983. If there's one thing Wall Street won't tolerate, it's a growth company that fails to grow. In two days Reeves lost nearly one-third its market value, a sure sign that investors were surprised. Green's own holdings shrank by \$13.8 million.

Worse was to come. In late June, only a week before the end of the 1983 fiscal year, Reeves announced that per-share earnings would fall to about 86 cents, vs. \$2 for fiscal 1982, and that Reeves would run at a loss in the final fiscal quarter. The stock has fallen another 23%, to around \$13 a share, knocking an additional \$7 million off the value of Green's stock.

For a market that has remained generally kind to entertainers, communicators and publishers, the losses are enormous. So what went wrong at Reeves? The answer lies in its 1981 acquisition of \$200 million (sales) Musexport, a Switzerland-based direct-mail marketer of books and other

goods, mainly in Europe and Japan. Until then Reeves had prospered through domestic acquisitions in television and movie production and consulting. Its best-known TV programs are *That's Incredible!* and *Gimme a Break!*, produced by its Alan Landsburg Productions subsidiary, which also owns interests in the movies *Jaws 3-D* and *Porky's II: The Next Day*. But Reeves' rapid growth and prosperity failed to satisfy Green. "Marvin



Reeves Chairman Marvin H. Green Jr.
In the short term, clearly a disaster.

wants to be a huge industrialist," says a former Reeves executive, "and he doesn't care what industry he's in. At one time he even talked about buying a greeting card company."

For Musexport, almost five times Reeves' size and which had been on the block for at least three years with no takers, Reeves says it paid \$72 million, a figure that includes the present value of future payments as well as the cash and stock paid on closing the deal. The cash alone, nearly \$45 million, exceeded Reeves' entire fiscal 1980 sales of \$44.4 million.

The acquisition thrust Reeves into

publishing and marketing in strange lands where currencies don't always hold their value. Green thought he had it all figured out, though. In a self-congratulatory letter to shareholders in the 1982 annual report, he correctly observed that a small domestic company faces "a formidable challenge" in striking out abroad on so large a scale. But, he said, Reeves had met the challenge, and he said so even as the world recession deepened and the dollar kept climbing in value. From fiscal 1981 to 1982 the dollar value of Musexport's sales had fallen by 15%, to \$165 million. For fiscal 1983 there will be another sharp shrinkage in dollar value. Says Barry Kaplan, an analyst at A.G. Becker Paribas: "In the short term, the Musexport acquisition has clearly been a disaster for them."

Green says that in 1980 no one could have foretold the depth and length of the recession or the strength of the dollar. Still, as late as October 1982, even in the depth of the recession, Green failed to anticipate the damage that would be done to fiscal 1983 sales and earnings. Reeves' fiscal 1982 annual report went to press in October. The report did observe that dollar revenues fell from 1981's pro forma sales and that sales in local currencies were flat. But the nod at the real world was a slight one. Otherwise Reeves' report was rosy. In November Green spoke to the New York Society of Security Analysts. He boasted that Musexport had achieved higher operating earnings in 1982 despite the "generally poor economic conditions that have prevailed around the world and . . . the increase of almost 40% in the value of the dollar against our basket of currencies." Moreover, Green said, the September quarter "is a weak quarter for both companies, and we would hope for better things in the remainder of

the year." That his optimism was mistaken became clear in December—the earliest point, says Green, that he could have known that several of Musexport's sales campaigns had not performed as projected.

Two shareholders clearly not so sanguine were the Josefowitz brothers of Switzerland, Sam and David. Through their Musex S.A. holding company the brothers owned 1,224,000 unregistered shares of Reeves stock (adjusted for subsequent splits), acquired when they sold Musexport to Reeves. Later they sold 750,000 of their shares. Then, last No-

vember, as Reeves stock edged toward its record high, they sold off 450,000 split-adjusted shares, all but wiping out their interest in Reeves.

Although few other shareholders were prescient enough to unload, Reeves actually benefited from the timing. Reeves had guaranteed the Josefowitzs a minimum split-adjusted price of \$17.75 a share when they chose to sell their stock. By the time the Josefowitzs asked Reeves to register the stock on Oct. 15, so it could be sold, Reeves stock was at \$17.67, a tad under the guarantee price. By the time the SEC approved the registration on Nov. 17, the stock was at \$25.33, not far from its eventual peak of \$28 three weeks later. Had Reeves' bad news surfaced in mid-October and had the decline in its stock price approximated the 32% decline that followed Green's announcement in mid-December, Reeves would have been on the hook to the Josefowitz brothers for around \$2.5 million, or 20 cents a share—no small potatoes to a company that size in a down year.

Where Reeves goes from here is unclear. Becker's Kaplan thinks Green should dump Reeves International (as Musexport is now known) by spinning it off. "I believe they are considering it, and I really wish they would," he says. William Wetzel, Reeves' executive vice president and chief administrative officer, says carefully that Reeves has no present plans to do so. Others think Reeves will recoup with another, more promising acquisition. In fact, another acquisition is precisely what Green told the security analysts he is looking for. "What they"—the men at Reeves—"are always looking for is the next deal," says one observer who knows Reeves well. "It's not an exciting company. Its upside has always been that 'Marvin's going to make another buy.' The knowledgeable are betting on Marvin, not on the company."

That may be why, despite Reeves' earnings slump, its shares still fetch a price of around 15 times earnings.

Green sees his biggest mistake as acquiring Musexport even though he knew its principal executive would retire. "I will never do it again," Green says. It's clear also that Reeves' most successful operation, Alan Landsburg Productions, has succeeded because Landsburg and ALP President Howard Lipstone have been left alone to run it.

One other thing is clear: For all Marvin Green's reputation as a deal-maker, he has still to show that he can run a company. Sooner or later he must do so. ■

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On the Docket

Changes in the long-standing "employment-at-will" doctrine may frighten some companies into making big mistakes.

Don't panic

By Richard Greene

BOSSES who have traditionally been able to fire any employee at any time have been shocked in the last year or so to find that the law has turned against them. Employment-at-will, the long-standing doctrine that a worker keeps his job at his employer's pleasure, is being eroded.

A number of court decisions now hold that when an employer provides any kind of guarantee of job security, he has virtually handed over a signed contract. Such guarantees can range from an idle comment in the hiring

ber-hungry labor unions.

Naturally, job security is only one issue that unions can use to organize a company; pay levels are also a crucial bargaining point. But at a time when the unemployment rate is still around 10%, any talk of the ability to dismiss employees is serious business.

"Unions today are vigorously searching for opportunities to organize because of their dire financial straits," says Marvin Goldstein, a partner with Grotta, Glassman & Hoffman, a labor law firm. "A company that explicitly seeks to protect itself against the exceptions to the

manufacturing business in the Northeast, and the union said to the employees, 'You need us to protect your jobs.' We said, 'There's nothing a union can give to you that we're not providing. And, if we fail to give you what we're promising, the law now protects you.' The employees voted the union out."

Who's discriminating against whom?

IF AN EMPLOYEE has been with you for more than 20 years and is at least 55 years old, there are only three reasons you can fire him," says Calvin Grove, a partner in the labor law firm of Fox & Grove. "Stealing, coming in late or drunk, or raping the boss' wife."

Grove is being sarcastic, of course, but his point is clear. The pendulum has swung so far that it is difficult for large companies to win age discrimination cases. Grove thinks he knows why. "It's the jury system," he claims.

What? That greatest of rights, the guarantee of a fair hearing before 12 of one's peers? Yes, says Grove, agitatedly, leaning forward in his chair. The problem, he says, is that large, faceless corporations don't really have any peers. The folks who are sitting on juries don't have a gray-haired, wizened corporation sitting at home. They do, however, have fathers, aunts, friends and acquaintances who are fearful of losing their jobs because they are getting older.

The flood of these cases began about four years ago, when the Supreme Court decided that age discrimination claims can, at the plaintiff's discretion, be tried in front of a jury. This happens frequently, since plaintiffs suspect that judges will be more sympathetic to a company's plight.

One result: Age cases are the fastest-growing segment of discrimination litigation—the largest category of civil litigation now heard in federal courts. "Juries just don't believe employers," says Grove. "And people frequently take out all their frustrations on their own employers when they're sitting on a jury."

Instances of people having been fired by companies just because they were easily replaced by younger employees or because they were approaching pension-collection age are scarcely unknown. For such people, access to a jury is good news. But for companies unable to fire longtime employees for cause without severance, it's a question of who is really being discriminated against. ■



process—"Nobody gets fired around here without a good reason"—to a line in the employee handbook that says, "You will not be fired without just cause."

As a result, many companies, particularly small and middle-size firms, are altering the written materials they give their employees. They are adding language that effectively says, "Look, dear employee, we don't intend to treat you badly. But if we want to fire you, we can."

This may seem like smart preventive action, but it isn't. Employers who panic and revise employment manuals in a way that appears indifferent to employee needs could be sending a written invitation to mem-

employment-at-will theory will not only be giving unions a leg up, it will also be doing work for the unions that they may have been having difficulty doing for themselves—convincing employees that they do not have job security."

The erosion of the employment-at-will doctrine does present an opportunity for companies, however. Firms that carefully rework employee guidelines may even be able to use these changes to their benefit.

Listen to Stephen Cabot, a senior partner at Pechner, Dorfman, Wolffe, Rounick & Cabot, which generally represents companies that want to avoid union organization: "We were working with management at a lamp

Meeting those needs has spawned a boom in global construction that, despite a 9% drop in volume last year because of the recession, still brought the world's contractors \$123.1 billion in new foreign orders. Surprisingly, U.S. firms still are prime beneficiaries, even though they must find private financing for the loan guarantees Third World nations often require for large construction projects. American firms are the top 4 of 5 and the top 10 of 15 in *Engineering News-Record's* list of the top 250 international contractors, and 46 American contractors managed to garner 36.5% of all foreign awards last year, for \$44.9 billion worth of construction.

Technology suited to the Third World is a principal competitive element. Birdair Structures, a division of Chemical Fabrics Corp. of North Ben-

nington, Vt., for example, used Teflon-coated Fiberglas as the roofing material for Saudi Arabia's huge Haj Terminal at the new King Abdul Aziz International Airport in Jidda, which is designed to accommodate the millions of Muslims making the pilgrimage to Mecca, Islam's holiest city, each year. The terminal roof, completed in 1981, spans 105 acres—about 80 football fields—at a cost of \$180 million, far lower than the cost of a conventional reinforced concrete structure. In addition, the tentlike fabric roof reflects more sunlight (and is thus cooler) and is easier to maintain than concrete.

Architerra, Inc., an architectural design and consulting firm in Arlington, Va., has applied technology to a centuries-old form of housing to come up with a novel solution to the Third

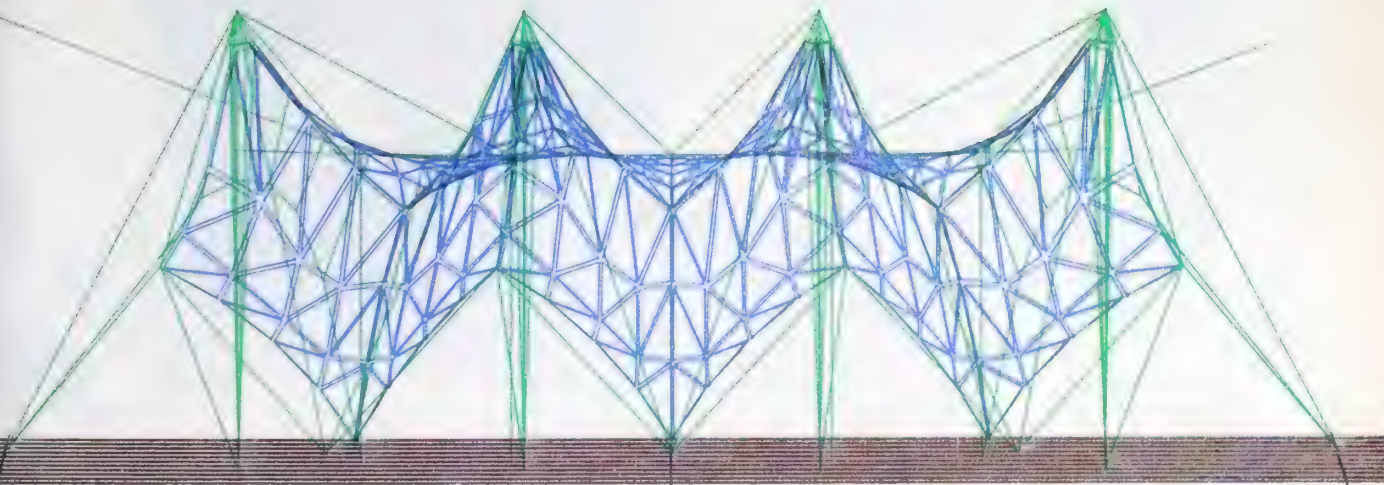
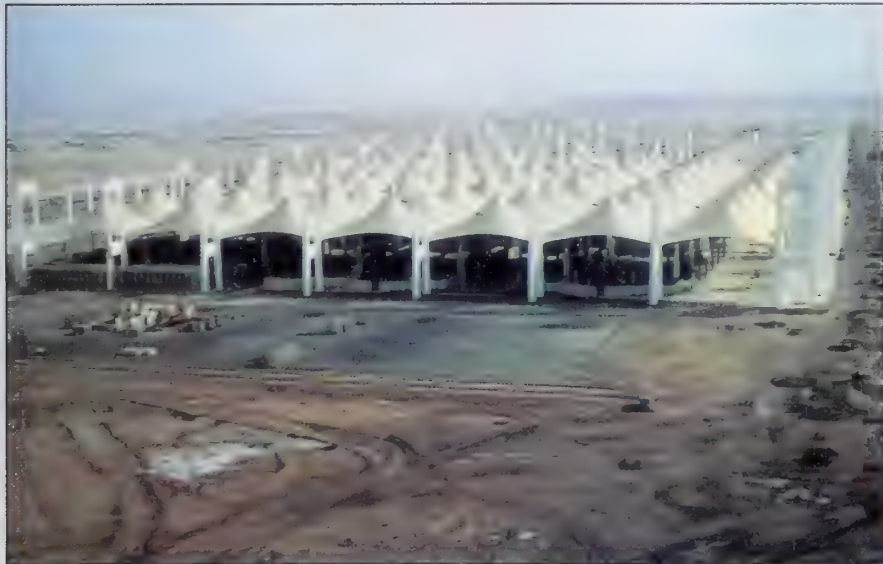


Architerra hillside construction
A practical alternative to the favela.

World's urban housing crisis. The firm, founded by French architect and engineer Henri Vidal, uses a combination of compressed earth and reinforced steel beams to create vertically stacked mountainside housing much like the *favelas* that now surround so many Third World cities. Architerra's houses are set into hillsides and covered with dirt on three sides and on the roof, leaving a southern exposure open behind a vertical glass wall. The result is an almost ideal passive solar-power-heated structure. Stacking the units vertically, one on top of the other, simplifies water delivery and sanitation. The concept has already been proved in the construction of resort communities in France and Spain.

Building new cities would be a useless exercise if there were no work for those who lived in them. But here, too, developing nations are making progress. Brazil already has a flourishing aircraft industry, which exports medium-size propeller-driven planes to U.S. commuter airlines. Argentina has developed a flourishing arms industry. Singapore has steadily up-

The Haj Terminal in Jidda, Saudi Arabia (photo) Below, a computer generated schematic of a stadium in Riyadh. Both combine advanced Fiberglas/Teflon material with traditional tent design to solve a critical construction problem.







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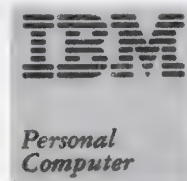
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Technology

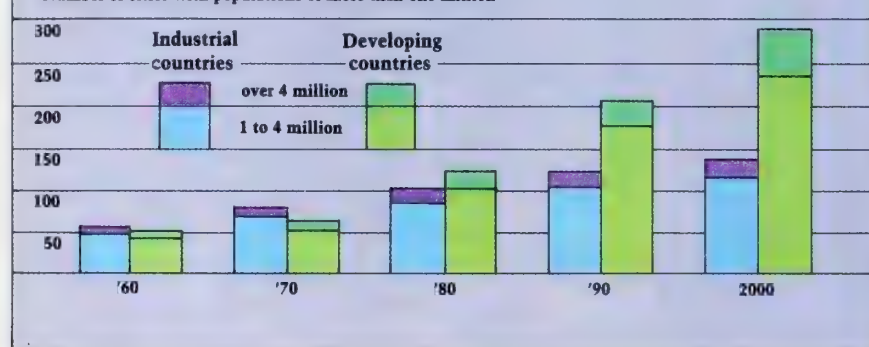
graded its industrial base, so that it is now a competitor for electronics firms looking not only for low-cost labor but also for high-quality scientific and engineering support.

All through the Third World, in fact, manufacturing has grown at an impressive pace. Once primarily agricultural, many Third World nations are taking on the look of developed economies in the proportion of their gross domestic product given over to industry and services. The 39 nations

... and needs expand

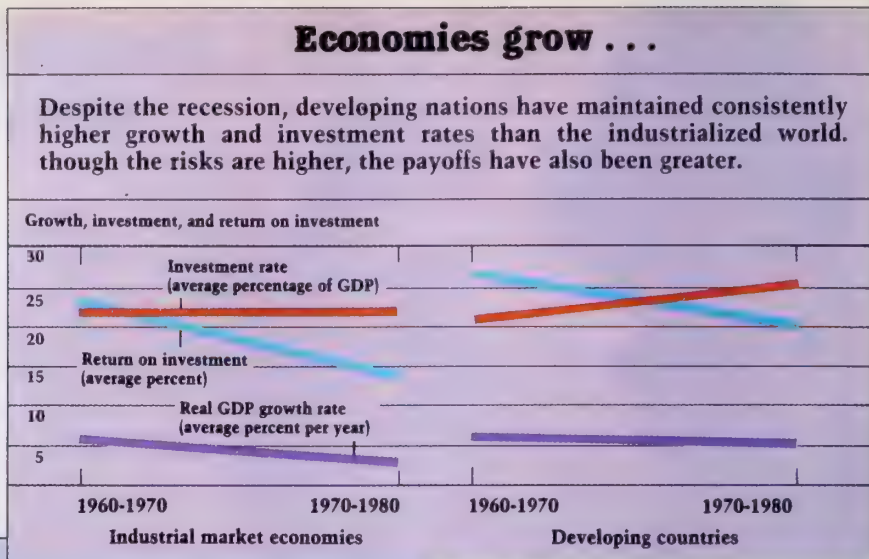
Opportunity is predictable in the Third World. Populations are steadily urbanizing, so that investment must go to social infrastructure. Only advanced technology will make LDC needs affordable.

Number of cities with populations of more than one million



that the World Bank classifies as "lower middle income"—among them Kenya, Senegal, Bolivia, Honduras, Jordan and the Dominican Republic—now derive an average of 35% of their GDP from industry and 43% from services, while agriculture's share of production has fallen to an average 22%. Even in the poorest economies, the shift is on: In nations such as Bangladesh, Mozambique and Sudan, manufacturing and services account for 55% of GDP, while agriculture's share has fallen from 48% to 35% since 1960.

A shift of that magnitude, coupled with a large and rising GDP, spells opportunity for products tailored to the needs of the Third World. Companies such as Bausch & Lomb and Quality Measurement Systems, both of Rochester, N.Y., export digital read-out equipment to the developing world, where it is installed on manually operated machine tools. The result is a gain in productivity that, while not as high as that of total computer automation, is still substantial.



for diseases of the industrialized world, are tackling illnesses all but unknown in the West with "shelf-stable" vaccines that can be shipped to remote locations and stored without refrigeration. Aircraft manufacturers long supplied Africa and Latin America with military and civilian aircraft originally conceived for the needs of the industrialized West. Now they are working on planes designed specifically for developing nations.

For example, Lockheed Aircraft, whose Hercules turboprop is the largest-selling aircraft in the Third World, has developed several prototypes for transport planes that could carry bulk commodities at relatively low cost. That could have implications for the developed world as well. Right now, air freight is really practical only for high-value-added goods such as electronic parts, or perishable cargo such as table flowers. Design a plane that can carry coffee cheaply, and you change the economics of transport as well as of development.

The opportunities are there. Now if only the nations could develop a sound financial system that would get world trade growing again.

Life begins at 50

In information processing, the surest indication that an industry is about to take off is when somebody puts together a directory of users. The latest industry to be anointed: facsimile, a technology that has been around for over 50 years and that was nearly dead in the water only two or three years ago.

Facsimile machines translate a printed page or graphics into electronic signals to be transmitted over a telephone line (and, more recently, via satellite) and reproduced at the

receiving end. It has become a nice little business, almost unnoticed, growing more rapidly in recent years than, for example, the more familiar telex. Installed fax machines in the U.S. jumped to 350,000 units in 1982, from 69,000 in 1975. That compares with only 130,000 telexes installed to date. For the future, projections are for a 15% to 20% compound annual increase in facsimile installations for the next decade, to 1.4 million units by 1992. Dollar value, according to Kenneth G. Bosomworth, president of



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Technology

International Resource Development, will be up nearly threefold, to \$837 million, by 1992, from last year's \$290 million (see chart).

What caused the renaissance of fax? "Everybody thought the computer industry would come up with a work station that combined voice, text and image processing," says Stanley R. Greenfield, compiler of *The Facsimile Directory*. "But the bandwidth capacity required for transmission and the electronics to make it all work properly are just too expensive."

At the same time, the cost of new, semiconductor-technology-based facsimile machines was dropping dramatically. For example, a comparable 3M machine that cost \$21,000 six years ago sells for \$2,600 today. Most machines are now manufactured in Japan, even though they have American labels. This has turned the major American fax manufacturers into vendors and prompted them to emphasize service and reliability more than when they had captive markets. Such strategies helped office equipment maker Pitney-Bowes Inc. capture 6.4% of the 1982 fax market with a product line that it did not introduce until last September.

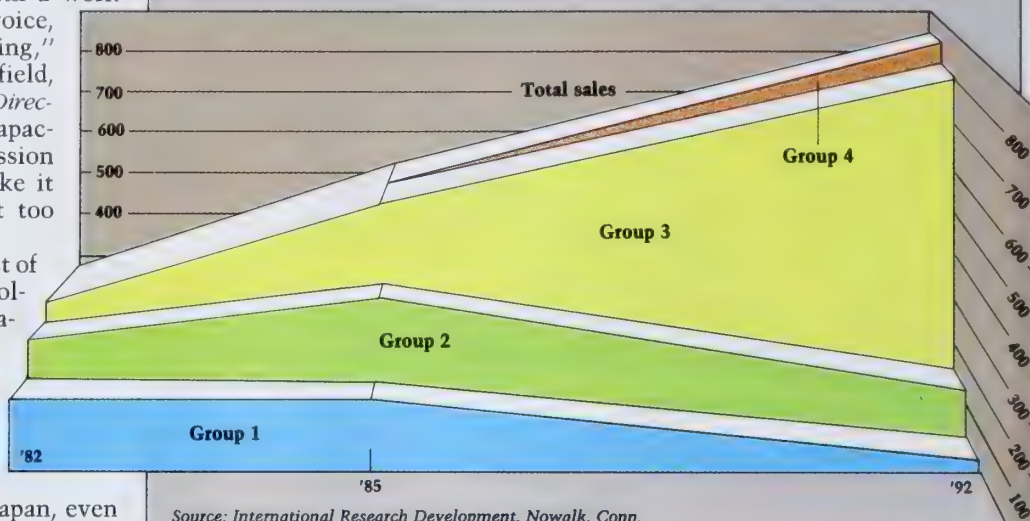
The Japanese brought in an elegant new technology called Group 3, for third generation. In the past, says Dennis Anderson, national sales manager of Panafax, a subsidiary of Japan's giant Matsushita, "the machines themselves were their own worst enemies." They took six minutes to transmit a single page and required an operator to dial the phone number and feed each page. The resolution was poor and the paper quality was worse. Group 2 machines, introduced in 1976, cut transmission time in half, but quality was still poor. Group 3 machines, by contrast, can transmit a page in about 20 seconds, and telephone bills are cut proportionately: \$4 per page for an old Group 1 machine, vs. less than \$1 for Group 3.

The fax companies also adopted international standards of compatibility. That means the latest Group 3 equipment can communicate not only with machines of its own genera-

Fax finally catches fire . . .

Driven by improved Japanese technology, falling price tags, and universal compatibility, the fax market will nearly triple in value in the next ten years. Most new equipment will be of the Group 3 type while next generation Group 4 units will not be much of a factor in the surge. These five-second-per-page machines require a wider bandwidth than phone lines, the current avenue of transmission for most traffic.

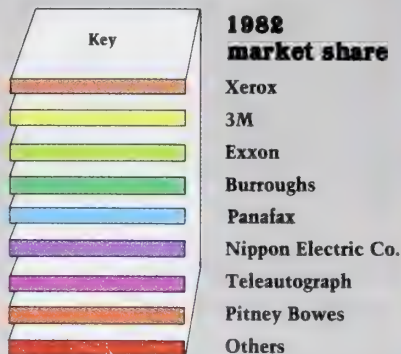
Facsimile equipment sales (\$ millions)



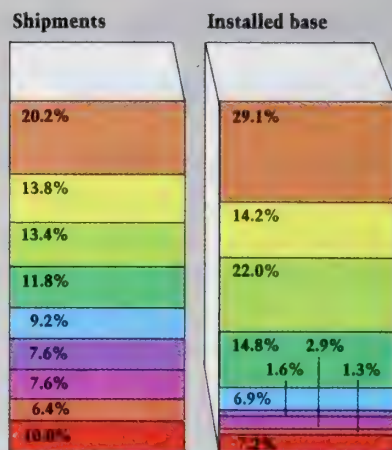
Source: International Research Development, Nowalk, Conn.

. . . as vendors scuffle over market share

The crowded field of competitors and commoditylike pricing make for a market place free-for-all.



Source: International Data Corp., Framingham Mass.



tion but with most of Group 2 and even Group 1, which still make up half of the installed base.

All this has made the fax market so attractive that competing document delivery services are getting into the business. Next year Federal Express Corp. intends to operate a new service that will use Japanese-made equipment to send facsimiles of documents across the country. Pickups and deliveries will be the same as far as the customer is concerned, but facsimile instead of airplanes will take care of

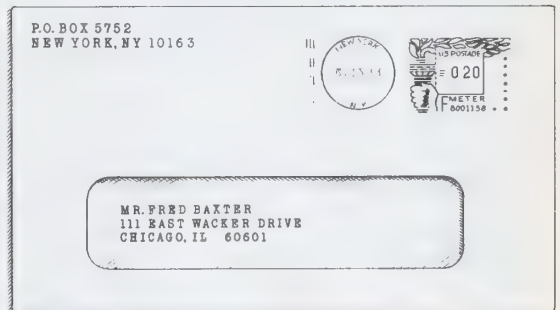
the transmission. Federal claims the copies will be of such high quality that it would be a misnomer to call them faxes.

The facsimile vendors are not worried. "It's still not as convenient as having a machine right next to your desk," says Doug Brunson, senior vice president of marketing for Exxon's Office Systems Co. However the battle with the air couriers comes out, it's a new lease on life for a middle-aged technology.—Jon Schriber

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Personal Affairs

Edited by William G. Flanagan

Business travelers to the Orient used to make stays in Tokyo brief, for good reason. Tokyo will never be a bargain, but nowadays it is almost reasonable. And trips outside the city can be delightful.

In the land of the rising sums

By Richard Phalon

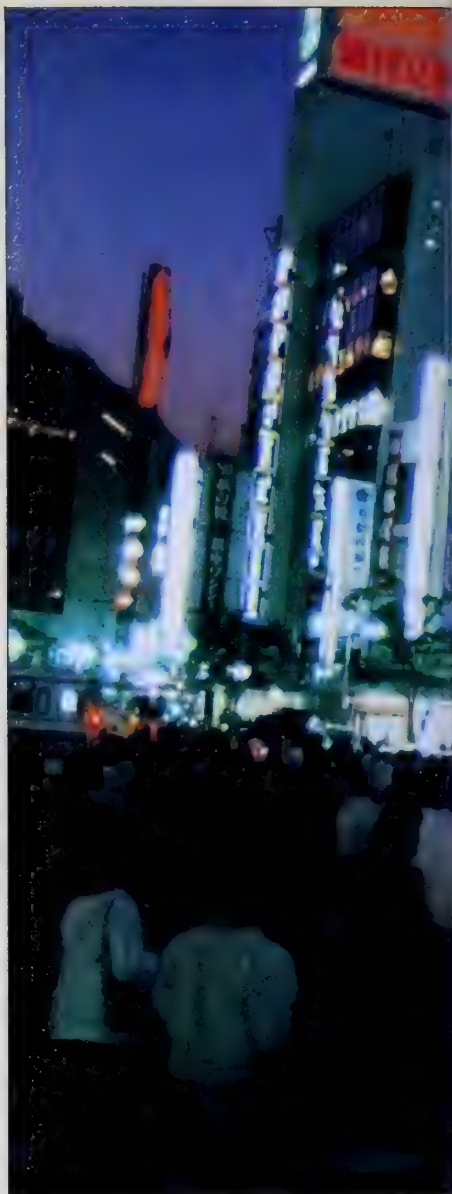
WHAT'S THIS? Tokyo becoming reasonable? Well, it will never be a place where the expense account wizard can salt away enough to make a boat payment or two. But Tokyo is no longer the shocker—\$50 breakfasts, with see-through coffee and all that—it has been for so long to visiting American and European businessmen.

Credit the strong dollar (and the shaky yen) for more digestible prices. Competitive pressures are at work, too. Take hotels. Tokyo is in the middle of a building boom that not only means a halt in whatever-the-traffic-can-bear rates but also provides visitors with real choices for a change, instead of having to accept a room at whatever big-name hotel happens to have some space open.

"With all these new rooms coming on, we may be in for a difficult year or two," says Ichiro Inumaru, executive vice president of the Imperial Hotel. The Imperial itself recently opened a 31-story wing that boosted capacity by nearly 45%. A mile to the west, the Asia-size New Otani and the recently opened Akasaka Prince stare daggers at each other 40 stories above some of the world's most expensive real estate. Farther west, in the

high-rise enclave of Shinjuku, Hilton International is putting up a 900-room structure. A Century Hyatt right across the street is almost three years old. Not far away, the Shinjuku Washington is putting up a 1,500-room colossus. In all, by the end of next year new construction will have boosted first-class hotel space in the city by 40%.

For the foreigner the choice of a hotel in Tokyo can be critical. Often too tired or too confused to seek out local watering holes or dining spots, the American businessman takes more meals and does more sipping at his Tokyo hotel than he would in most other cities. Indeed, hotels in Tokyo draw about 75% of their gross from the sale of food and drink and only 25% from room revenues, almost the opposite of hotels in the U.S. (Of course, Japanese businessmen,



whose expense accounts are legendary, do their share of partying at Western-style hotels, too, which adds considerably to the nonroom revenues.)

Then there is the matter of the hotel's location. In a city where many streets are unmarked or marked only in Japanese characters, where distances are considerable between key districts and where transportation is overtaxed, staying in a hotel handy to where one's business is to be conducted can make or break a trip. If you plan on being in and out of the American Embassy, for instance, the Okura is the best bet. If you'll be dealing with legislators or the prime minister's office,



Bullet train between Tokyo and Kyoto



The Shinjuku area, one focus of Tokyo's Westernized night life

the Hilton is a good choice. The Imperial offers easy access to the banks, insurance companies and other large corporations marshaled in respectful attention along the east side of the Imperial Palace Gardens. Long before you leave, then, check with associates to see which major hotels are handiest to where you will be doing most of your business.

Room prices at the best hotels tend to overlap and are roughly akin to what you would pay at top hotels in New York.* Figure on spending from \$85 to \$100 a night for a single at one of the better hotels, \$110 for a double, \$140 for a suite. But it can pay to shop a bit. The Okura, for

example, often ranked as one of the businessman's favorites anywhere, charges less than the very elegant Imperial for a single but about the same for its doubles. The somewhat more

glitzy Akasaka Prince, on the other hand, charges more than the Imperial for its singles and its doubles.

With 2,000-plus rooms, the New Otani is the biggest hotel in all of Asia, and its brassiness and efficiency make it a favorite of conventions and groups. But the Hilton is where you'll find the savvy Asian hands. They also like the Okura and the Imperial. In New York terms, it's the difference



Stone Buddha at Kamakura

**Tired of having Tokyo branded the world's most expensive city to visit, the Japanese National Tourist Organization has cooked up its own list of the 16 costliest business meccas and, you guessed it, New York came out on top, with Tokyo 15th. Believe that and I'll sell you a chunk of the Imperial Palace*

Personal Affairs

between the Plaza or the St. Regis and, say, the Sheraton Centre.

The dozen or so topflight hotels are backed by a second tier of perhaps another 25 properties that are clean, well managed and centrally situated—the Akasaka Tokyu or the Takakanawa, for example, where the rates run from about \$45 up for a single.

If you insist on salvaging a boat payment, there are also "business hotels" worth considering. Typical is the 175-room Asia Center of Japan, located in the middle-class district of Aoyama, 10 minutes from downtown by subway. The rooms are a study in the Japanese art of miniaturization: roughly 9-by-12 feet, with complete Western bath to boot. But the well-adjusted couple sharing such a room pays only \$35 a night, a bargain by New York City standards.

Good current guides to pick up are *Hotels in Japan* and *Reasonable Accommodations in Japan*. Both are published by the Japan National Tourist Organization, Rockefeller Plaza, 630 Fifth Avenue, New York, N.Y. 10111.

Some of the best cuisine in town is to be found in the hotels, with particularly high marks for the Okura and the Hilton. But if you fancy Japanese fare, Tokyo is akin to Paris. It is almost impossible to get a bad meal, from the neighborhood Nomiya, where upwardly mobile "salarymen" do their afterhours boozing, to Edogin, one of Tokyo's best-known sushi shops.

Japanese restaurants tend to specialize. If it's tempura you want, try Tempura Ten-Ichi. The main restaurant is in Ginza, but there are branches in the Imperial and the Akasaka Tokyu. Portions are generous. A shared tempura lunch, filling enough for three, with beer, goes for a total of around \$37. If it's Kobe beef you're after (yes, you can cut it with a pair of chopsticks), try Kisho. For drinks and dinner, figure about \$30 a head.

Many visitors would rather leave the fermented bean paste, pickled plums, chrysanthemum leaves and other exotica to the locals. If it's

French you prefer, the Shido, in Akasaka, and Le Poisson Rouge, in Minami Aoyama, shouldn't disappoint. For Italian, Antonio's, in Roppongi, is justly famous. At any of those three dining spots, you can easily get out for under \$30 per person, including wine. (Imported French wines are very pricey, of course, but a half bottle of *vin ordinaire* or Italian Chianti will go for under \$10.) Japan's own wines—red, white and rosé—go for around \$5 a bottle and at that price are at least drinkable.

Getting around Tokyo can be maddening. Taxis are plentiful during non-rush hours, but drivers usually speak little or no English and, major landmarks aside, don't always know their way around the city all that well. A travel aid: Have your hotel

around \$200 a day and up, but the cost may be justified by the effort saved in getting around.

Things to see and do

Besides such predictable standards as tours of the Imperial Palace Gardens and the Meiji Shrine, the Japan Travel Bureau sponsors bus trips keyed to the business visitor. Among them: tours of the Fujitsu Computer Laboratory, a Canon camera plant or the Suntory distillery. (Don't expect to see anything worth photographing or cribbing.) Cost is \$32, which includes lunch.

Kabuki, the centuries-old mix of drama and opera that is one of Japan's great treasures, is surely worth at least a brief look. The Kabuki repertory company puts on both morning (around 11) and afternoon (about 4) shows. Your hotel can arrange tickets.

Also worth a look is Ueno Park and the cultural complex that includes the Tokyo National Museum.

Like the Louvre, the British Museum and the Metropolitan, its 20 exhibition halls are best taken in small bites.

The main attraction is the painting collection.

Note: Nightlife in Tokyo is truly symbolized by all that neon in Ginza—hot reds, blues and yellows splashing over hundreds of bars, strip joints and cabarets. One of the latter, the Mikado, sums up the touristy quality of it all.

The place nightly features four bands, a dance team or two, and is cavernous enough to accommodate 600 hostesses and 1,300 customers. For counterpoint, there are concerts almost every night by one of Tokyo's six symphony orchestras, and more than enough top-rank foreign ensembles and ballet companies on tour to keep everybody happy.

No matter what your business, take some time to cruise Tokyo's department stores. Among the most clever merchandisers in the world, the Japanese show great style in getting shoppers to part with their yen. At the biggest department stores, the basement floors are jammed with food stalls that only Harrods in London could hope to equal in quantity and quality. To entice buyers further, there are beer gardens on the roof at Hankyu, a nine-hole miniature golf course on the roof of the Isetan and a tennis court atop Matsuya. The variety of goods at these and other stores, including Takashimaya and Odayaka, is legendary. At Mitsukoshi you can



The New Otani and Akasaka Prince
First-class hotel space is increasing by 40%, giving more choice.

concierge or a Japanese business associate write down the name and address of your destination so you can show it to your driver. Take some pain out of the return trip with cards or matchbooks that spell out the name of your hotel in Japanese.

Fast, clean and cheap—again, forget rush hours—the subway can be a great way to get around the city. But get specific instructions before you venture underground.

Your surest bet is to rent a car and driver, a common practice among visiting businessmen who want to make the most of their time. You can arrange for the package beforehand or have your hotel do so. Rates run

Thunderbird. The way it looks...



improves the way it drives.

Thunderbird's design has much to do with the way it holds the road. Thunderbird's fluid lines were tested over 500 hours in a wind tunnel to make the shape of the car contribute to cornering and handling stability.

The design of the front.

Underneath the integrated front bumper is an air dam. It works with the wind to keep the weight of the car pressing down

on the front tires. And the more a tire presses to the road, the better it holds the road.

The design of the doors.

Thunderbird's doors curve into the roof. This smooths and quiets the airflow, improving aerodynamic efficiency.

The design of the rear.

The trunk lid incorpo-

rates another aerodynamic shape called a spoiler which further reduces "lift" and aerodynamic drag. (P.S. Underneath this lid, you'll find a trunk larger than you'd ever think possible in a car this smooth.)

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Have you driven a Ford... lately?



Get it together — Buckle up.

Personal Affairs

even pick out a gravestone, the last word in meeting consumer needs.

Getting out of town

You can run from Tokyo, but you cannot always hide. The reasons for running—too much noise, too much traffic, too many people jammed into too little space—gets to everyone at some point. And so, on almost any weekend that you choose to get out of town—to explore the shrines and temples of Kyoto, say—half of Tokyo will be right behind, or in front of, you. Go anyway, but plan ahead.

Kyoto is a must, and the way to go is by Shinkansen, the superexpress train that covers the 310-mile journey in just two hours and 50 minutes. Reserve a space early. Reserve a hotel room early, too. Kyoto is a big city

(population, 1.4 million), but 30 million people visit it each year. Rather than a downtown, Western-style hotel, try the novelty of getting a half hour or so out into the country for a stay in a traditional Japanese *ryokan*. There are *ryokan* downtown, but the country setting can be very appealing. The Hiragiya, the Tawaraya and the Yachiyo are small (20 rooms or so) but extremely comfortable. Some *ryokan* suites come with a full bath, so you will be able to take the traditional Japanese hot soak in your own room on your own schedule, perhaps followed by a massage.

The tatami floors, sliding doors, futon mattresses instead of beds, and sparse decor invite a feeling of restfulness—or boredom, depending upon your makeup. But it is worth at least one night. The cost—including breakfast and dinner—ranges from about \$105 to \$135 per person per night.

A final note: Few people in the world are as hospitable or as sensitive to formalities as the Japanese. Toyotas and Hondas are not the only values a visitor can find in life behind the shoji screen.

Detail of Shinto shrine in Hakodate



Moving your assets

If you are moving from one state to another, it can take months to straighten out the paperwork connected with shifting your assets from one jurisdiction to another. During those months you could be running up the tax meter in a state in which you no longer reside. In the event of a death, your estate could even wind up

being heavily taxed by the state in which your family no longer resides. Here are some things to bear in mind if you permanently relocate to another state:

Sign and record an affidavit at the county courthouse to prove that you are a new legal resident of a different state. Send a copy to your former state

as evidence you no longer live there.

Immediately find a good lawyer. If you are moving to a community property state (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas or Washington), you may have to redo your entire estate plan, for example. At the least, regardless of where you move, you should revise your will. States have all kinds of quirky differences regarding the taxation, disposition and settling of estates. The person or company you had named as executor may no longer be appropriate or even legally able to handle those chores. And, of course, it's a good idea to get new witnesses who won't be difficult to locate when the time comes to probate the will.

It might not be necessary to move your securities portfolio, but do switch your checking and savings accounts, the contents of your safe deposit box and any other movable property to the state in which you now reside.

If you are moving to Florida, you can smile broadly. As John Kuykendall, executive vice president of Palmetto Federal Savings & Loan, happily points out, Florida has no inheritance tax, no state income tax, no gift tax and only a small estate tax that can be taken as a credit on the federal estate tax return.—W.G.F.



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Faces Behind The Figures

Edited by John R. Dorfman

Vicious circle

It's bad enough that the company gets hit by a strike in the worst period the copper industry has had in 30 years, says George Munroe, chairman of \$958 million (sales) Phelps Dodge. But why on earth, he asks, does Washington have to penalize Phelps Dodge further by financing obviously uneconomic foreign mines that will flood



*Phelps Dodge Chairman George Munroe
Whose side is Uncle Sam on?*

the market just as the industry is beginning to recover?

"Take the state-owned Cobriza mine in Peru," Munroe says. "It was financed with \$60 million of World Bank money, \$55 million of Inter-American Development Bank money, a little bit from Eximbank and \$55 million from Wells Fargo. When the mine opened up last year it announced costs of \$1.30 a pound. The market for copper was 70 cents a pound. They lose 60 cents on every pound they produce—and that's without the 15 cents a pound environmental costs we have to pay—but they'll produce because they need the foreign exchange.

"And they know they'll be subsidized," Munroe goes on, "directly or indirectly, by the Peruvian government. The government is then unable to service its loans, so they come to the IMF, who comes in with close to

\$1 billion because commodity prices are down. Absent that safety net, I doubt if Wells Fargo would have come in with their loan.

"Now that's counterproductive, no matter what perspective you look at it from," Munroe complains. It is no small irony that, unlike competitors Anaconda and Kennecott, Phelps Dodge didn't spend its money on overseas mines that later got expropriated. So it didn't cost Washington heavily in compensating insurance payments through the Overseas Private Investment Corp. Instead, Phelps invested in the U.S., becoming the most efficient major copper producer in the country. Some thanks the company is getting.—**Geoffrey Smith**

Mr. Diamond

Bill Goldberg pauses while chatting with a visitor to look at a 6.11-carat diamond fresh off the wheel of one of his 16 cutters. He's pleased. The stone will go to a Hong Kong buyer for perhaps \$250,000.

For some diamond dealers, this would be the stone of a lifetime. Goldberg, a genial, 57-year-old nonstop talker, sees its like several times a year. A specialist in large diamonds, he was a half-partner in the Premier Rose, a striking 353-carat rough stone that, in a daring move, was sawed against the grain. The result: a 137-carat "D flawless" (plus two smaller stones) that Goldberg sold for \$9.2 million in 1978 to a Lebanese buyer he suspects was representing King Khalid of Saudi Arabia.

Goldberg's firm, William Goldberg Diamond Corp., grosses at least \$40 million a year. That's less than in the overheated days of 1979-81 but still

enough to rank it among the largest of the family-owned diamond firms that pack Manhattan's West 47th Street. But these days Goldberg is better known as the third-term president of the Diamond Dealers Club, the Big Board of diamond trading.

Unlike the New York Stock Exchange, the club occupies ramshackle quarters (it hopes for new ones soon) and keeps no record of transactions. Dealers, many of them orthodox Jews with yarmulkes and long, black jackets, inspect one another's wares at the club but often adjourn to nearby offices to consummate deals with a handshake.

The club has some 2,200 members and costs about \$8,000 to join. In addition to its trading-floor function, the club mediates and arbitrates perhaps 300 to 400 disputes each year among dealers, settling them fast and without litigation costs. Defy a club ruling, or take a contractual case to court, and you can be barred from trading at any of the world's 19 diamond bourses.

So how's business? "Fickle," says Goldberg. Demand has picked up for stones of 2 carats or more, but he finds it hard to get enough rough stones from the De Beers cartel to satisfy it. Meanwhile, prices, which plunged in 1982, haven't bounced back as much as Goldberg expected. Why not? "I don't know," says Goldberg. "It's an enigma."—**J.R.D.**

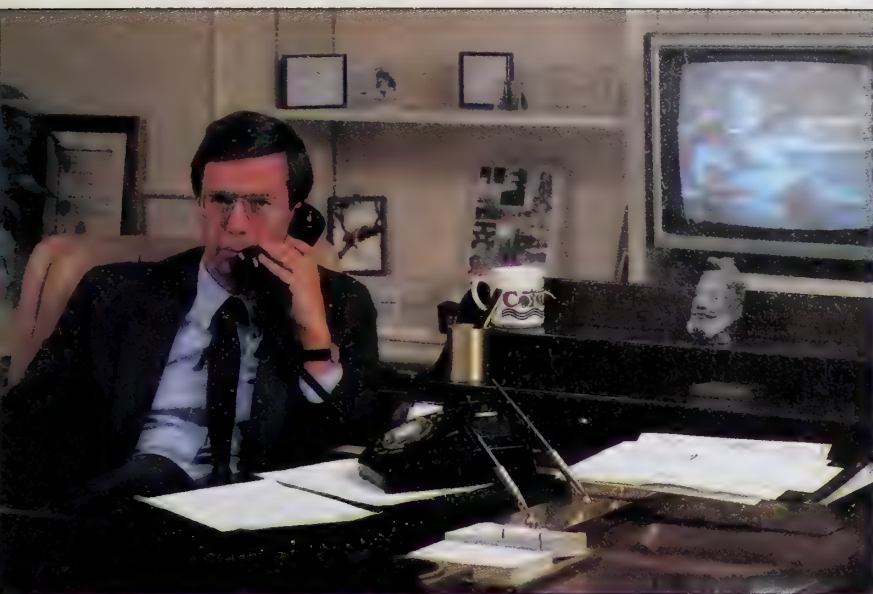
Funny business

New York's \$47 billion (assets) Chemical Bank, which is trying to draw business from stockbrokers, thinks it got a leg up with a humorous television commercial that aired in



Diamond dealer William Goldberg

Daring to cut a \$9 million stone against the grain.



Chemical Bank's William H. Turner

"We don't respond to that kind of communication."

May and June.

The 30-second commercial began with a well-dressed man sipping cocktails while a voice-over purred: "This is the only person guaranteed to make money in the stock market, your stockbroker." Another sequence showed a "broker" riding in the back of a limousine while a nubile blonde gave him a manicure. Voice-over: "Whether you win, lose or draw, he draws handsome commissions." Then the payoff: "Well, trade your broker for Chemical Bank's discount brokerage. We're fast and accurate and charge up to 75% less."

Few in the securities industry were amused. The Securities Industry Association protested the spot. So did Drexel Burnham Lambert and the American Stock Exchange, among others. Counters William H. Turner, the 43-year-old executive vice president who was in charge of the marketing effort: "Merrill Lynch didn't complain. Anyway, we like to mix humor with a message."

The bank further irritated the SIA when it didn't respond to a letter of protest. Turner says the letter appeared in the newspapers a week before it reached the bank. Anyway, he adds: "We don't respond to that kind of communication."

In 1976 Chemical was the first commercial bank to offer a discount stock brokerage service, but it stopped after a few months. It jumped back in last July and now has over 10,000 customers who can buy such things as municipal bonds and Treasuries as well as stock. These days, says Turner, bankers must think like retailers: "Like supermarket manag-

ers, we have to look for ways to get more business from each square foot of every branch."—Ben Weberman

After the fall

In 1982 George Baker was running Continental Illinois Bank's \$30 billion loan portfolio and had a shot at being president or chairman of the bank some day. That summer Penn Square Bank failed. The collapse of the Oklahoma energy lender has cost Continental \$264 million in loan losses so far, and it also cost Baker, now 53, his job.

After spending four months trying to sort out the Penn Square mess, Baker was forced to resign his

\$450,000-a-year post, making him the highest-ranking Continental officer to take the fall for the debacle.

Leaving the bank, where he had spent his entire 31-year career, and the attendant notoriety took their toll. Baker decided to get away with his family for snorkeling in the Cayman Islands and skiing in Aspen. He could afford the break: His severance deal assures him of \$22,708 a month through next June. "I didn't have to worry," he deadpans, "about keeping myself in whiskey and cigarettes."

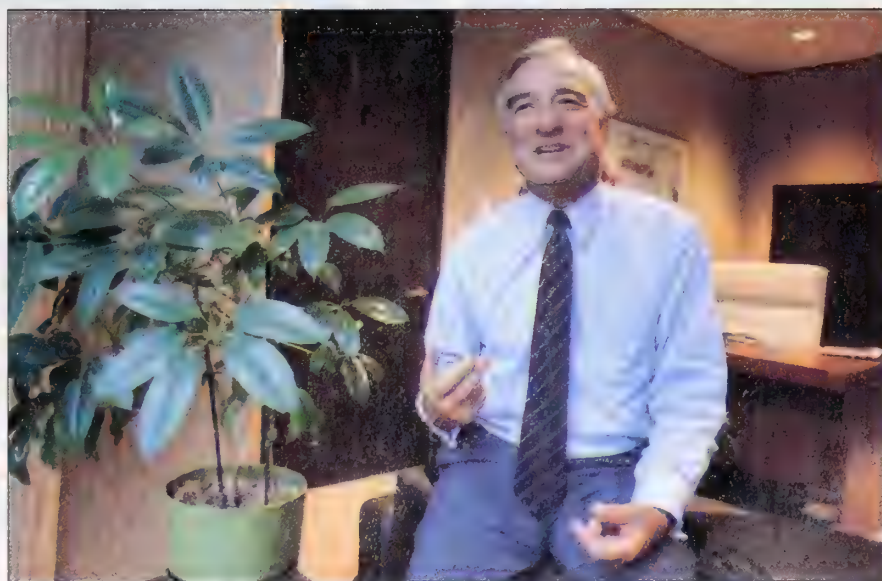
Now Baker is back at work, this time in investment banking. He's a "special limited partner" in the Chicago office of Bear, Stearns & Co. He has yet to arrange his first big merger or acquisition. "If I don't complete a deal within six months," he says, "I'll know I should be doing something else."

Baker doesn't seem bitter but flatly rejects responsibility for Continental's Penn Square losses. When Penn Square failed, Baker had 4,670 people working for him. No manager, he now contends, could possibly have kept tabs on so many.

At Bear, Stearns Baker won't have that worry. He operates largely on his own.—Christine Donahue

No more sleepless nights

Two years ago most of Wall Street would not have risked a nickel on Digital Switch Corp.'s prospects. After all, the company had no proven product and had yet to book its first dollar in sales. But Allen & Co. Inc. privately placed \$2.6 million with the problem-plagued, Texas-based maker



George Baker, formerly of Continental Illinois Bank

No one, he says, could have kept tabs on so many people.

Faces Behind the Figures

of telephone switching systems.

Digital's backer at Allen was Greek-born, German-educated Thalia Crooks, now 38. After spending 60-hour weeks investigating the company and its yet-to-be-manufactured product, she became an early believer in Digital's management team and its technology: a highly innovative, non-analog switch. After that, she urged Allen's partners to come in. (At Allen, partners are required not only to put up their own money but, in some cases, also to pay their own secretaries and buy their own furniture.)

This year analysts expect Digital to report earnings of nearly \$25 million on sales of \$125 million. The stock price, once as low as \$2.25 a share, reached \$144 before a 3-for-1 stock split in May. But Crooks still recalls the sleepless nights that accompanied her original recommendation.

Crooks should be sleeping all right these days. Now a Digital Switch director, she has engineered two stock offerings for the company. The deals have taken her out from underneath the shadow of her brother-in-law, Richard Crooks, an Allen managing director. She had met and married Richard's brother while they were graduate students in Germany.

After Crooks' husband was killed in

an auto accident, Richard helped her land a job at Allen. "I came to Wall Street by chance," she says. "But I'll stay forever. There's surprisingly little discrimination against women who are good at their work."

Crooks is now one of Allen's communications and technology experts. Are other Digital Switches out there? "I'm sure there are," she says, smiling sweetly. "And you can be sure I'm looking." —Thomas O'Donnell

Hear this, Judge Greene

Add this to your collection of small ironies that flow from big changes. Rochester Telephone Corp., a well-run independent serving some 325,000 customers in western New York State, is installing Western Electric equipment throughout its sys-

tem. Not only that, Rochester plans to sell such equipment to other independent telephone companies as well. What goes on here? The breakup of AT&T presided over by U.S. District Court Judge Harold Greene is, among other things, supposed to break Western Electric's grip on the market and encourage telephone operating companies to buy whatever equipment they want from whatever suppliers they like. The assumption is they want to be set free—good news for upstart switch companies as well as old-timers like Northern Telecom and GTE, but bad news for Western Electric, which will see its market share continue to dwindle. How comes it, then, that an independent is turning to the old Ma Bell subsidiary?

John H. (Chuck) Cline, executive vice president of Rochester Telephone and the man behind these moves, explains: "Over the years Rochester Telephone has used a large number of suppliers—Stromberg-Carlson, Northern Telecom, Nippon Electric. But back in the 1950s, unlike most independents, we were allowed to buy Western Electric gear. Our experience is that the quality and price of Western Electric equipment is unbeatable. Our plan is to convert all our local switching machines to Western Electric No. 5 digital switches."

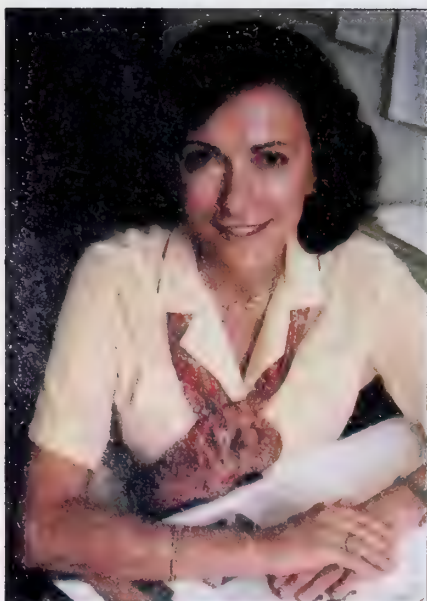
Meanwhile Cline, nicknamed Chuck by his prep school baseball team captain in honor of the Philadelphia Phillies' great Chuck Klein, has set up a new division of Rochester Telephone's unregulated Rotelcom subsidiary to sell Western Electric gear to other independents. "We un-



John H. Cline of Rochester Telephone
Guess whose equipment he's selling.

derstand independents' needs," he says, "and have the expertise to plan systems. Western Electric itself has to develop that." Rotelcom has installed its first switch for the Princeton [Ind.] Telephone Co. and booked orders for five more. It has also sold a system to the Ogden Telephone Co. in Spencerport, N.Y. and has proposals out to nearly a dozen other outfits. What do you think about that, Judge Greene?—Jean A. Briggs

Two feet on the ground
Among hot-stock-issue investment bankers outside New York, Hambrecht & Quist and Alex. Brown & Sons probably rank as the hares, managing about \$3.5 billion of new stock issues in the past year. But James



Thalia Crooks of Allen & Co.
Few others would risk a nickel.



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the amdahl phenomenon

October, 1970, a company was formed expressly to build one product: A mainframe computer that would outperform the mainframe that owned the market at that time. Today, this company is an international success story, a phenomenon.

Faces Behind the Figures

Bradford Jr., senior partner of Nashville's J.C. Bradford & Co., is glad to play the tortoise.

Bradford & Co. is one of the declining number of major regional brokerage houses that are still independent. Bradford, 50, swears he's not at all interested in selling his \$100 million (revenues) business or even in going public. "There's no question about it, if you're going to do a deal in this business, now's the time to do it," he says, feet up on his desk. "But we don't need the money."

Bradford managed only about \$257 million of new stock issues in the past 12 months. But it also did \$455 million in bonds. Throw in the debt issues, says Securities Data Co., and Bradford ranks sixth in the underwriting-management derby among non-New York investment bankers.

Insists Bradford, "There's lots more money in this country that wants to earn interest than is looking for capital appreciation."

It's not unusual for a regional broker to sell municipal bonds. Issuers, after all, often have a built-in local bias. But Bradford has also tackled taxable corporate bonds. "Those large companies with the best credits are used to doing business with the big boys in New York," Bradford says in



John West, president of Cadlinc Inc.

It's awfully soon to go public—but can he resist?

his slowest country drawl. Staying active in the bond market makes Bradford & Sons less vulnerable than some of its competitors to the risk of a collapse in the currently hot new-issues market.—Geoffrey Smith

Under pressure

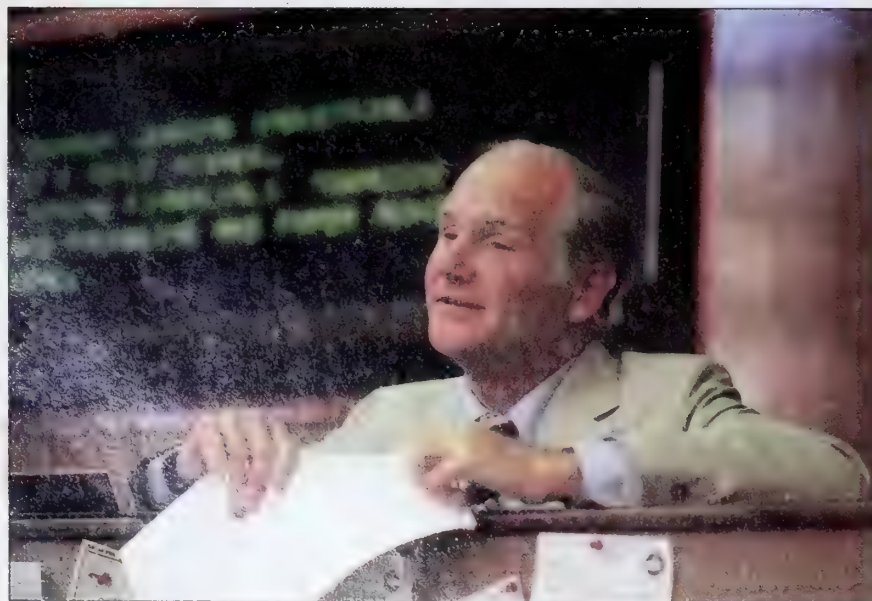
Mention video games, and John West, president of Elk Grove Village, Ill.'s Cadlinc Inc., fairly bristles. "It just bugs the heck out of me," he says, "when I think of all those talented people spending their time on games instead of the problems of the real world."

Cadlinc helps bridge that gap. It

makes computerized systems and equipment to assure that CAD/CAM (computer-assisted design and manufacturing) and CIM (computer-integrated manufacturing) will yield the productivity gains they're supposed to but too often do not. West would probably not say that Cadlinc makes such serious tasks more like video games, but it does make them less forbidding. For example, with Cadlinc equipment a draftsman works with familiar symbols—points, lines and circles—using a screen and an electronic "mouse" just as he used to use a drafting table and T square.

Having spent a decade in the machine tool business at Numeridex Inc., West started Cadlinc with backing from topflight venture capital outfits like Kleiner Perkins Caufield & Byers, the Hillman Co. and Hambrecht & Quist. Two years and \$9 million later, Cadlinc numbers among its customers such blue chip companies as General Motors, Ford, John Deere, Cooper Industries and Rexnord, and it has just finished its first month in the black. Sales will run about \$4 million this year, West says, and reach \$16 million in 1984.

After that? Well, prospects are so bright—and the new-issues market has been so hot—that West is under considerable pressure to take the company public. He worries about Cadlinc's losing its identity and ability to maneuver. But timing sometimes is all. "The evaluations being placed on companies today are astronomical," West says. "With that kind of war chest, you can accelerate your growth substantially."—James Cook



James Bradford Jr. of J.C. Bradford & Co.
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National Car Rental

The most familiar name in "tombstones" is making its first appearance.

THE WALL STREET JOURNAL MONDAY, JULY 1, 1990

Merrill Lynch Capital Markets

Merrill Lynch White Weld Capital Markets Group is now Merrill Lynch Capital Markets. The new name reflects a new approach to investment banking, designed to better serve the increasingly complex, increasingly international needs of corporations, institutions and government entities. Our globally integrated investment banking organization combines leadership in a wide array of financing and investing specialties—and an exceptional competence in each—with a firm-wide coordination of effort to maximize the benefit of all these services to our clients.

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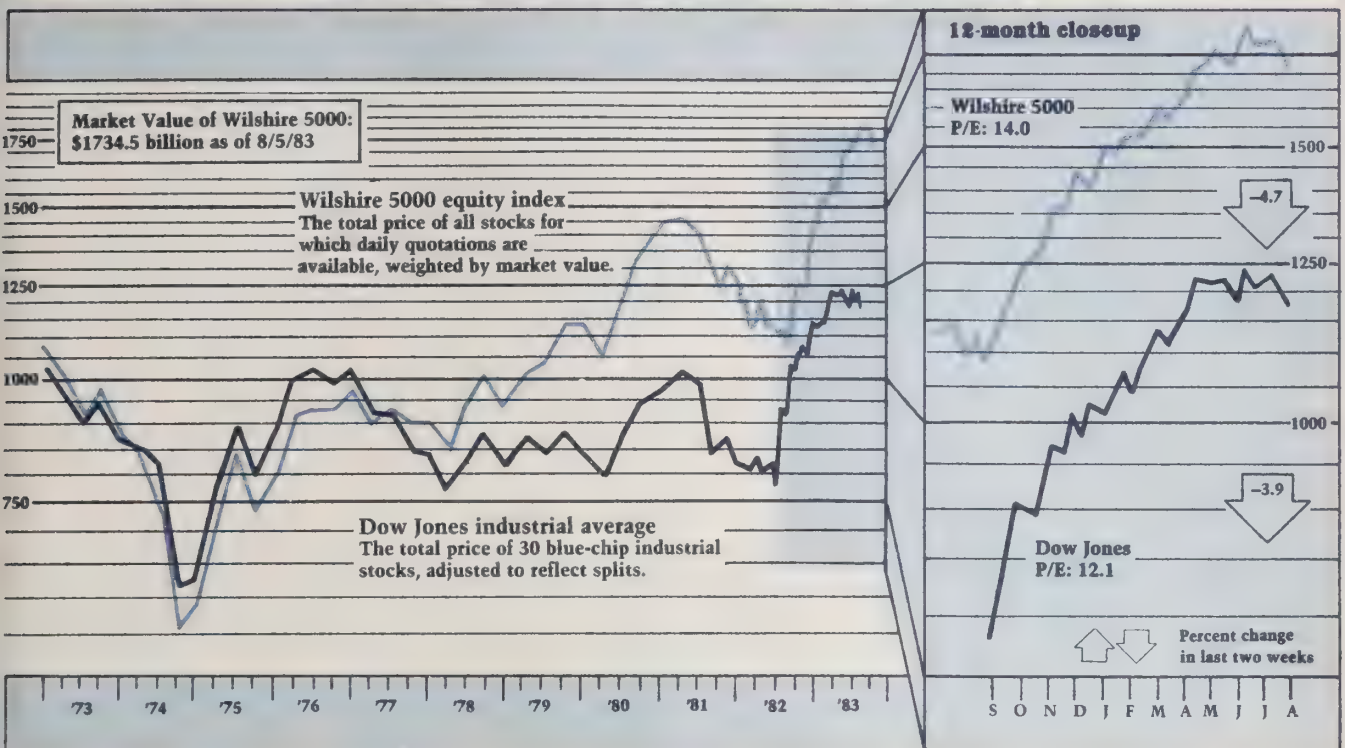
**HOW TO
MOVE**

Merrill Lynch Capital Markets



Merrill Lynch

The Forbes/Wilshire 5000 Review



Happy anniversary. Roughly 12 months after one of the greatest bull markets in history began, the long awaited correction finally seems to be upon us. Even so, there is still a lot to be thankful for. Over the last year the Dow advanced 50.9%, while the broadly based Wilshire index gained 60.7%. That's \$667 billion in market capital.

With clear signs of a resurgence in interest rates, however, plenty of Wall Streeters took the opportunity to convert their long-term paper profits into real cash. Over the last two weeks the Dow fell 3.9%, while secondary issues were hit even harder. The NYSE declined 4.2%, Amex issues lost 6.5% and NASDAQ issues dropped 6.4%. Still,

there was a positive side to all this turmoil: In two weeks the P/E multiple on the market declined from 14.7 to 14.0. Falling stock prices were met by some improvement in corporate earnings.

While it was hard to find an area of the market that wasn't hit by a wave of selling, speculative issues were generally much less in favor than their more conservative counterparts. As can be seen in the yardstick measures below, high-volatility shares lost 7.6% in the last four weeks, vs. a 0.9% drop for low-volatility issues. High-growth issues declined 5.9%, while low-growth stocks suffered only a 0.4% setback.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ¹	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-3.9	-3.5	-2.0	-3.4	-5.8	-6.1
in last 52 weeks	60.7	54.0	50.9	56.8	88.9	83.5

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	-3.8	-4.7	-7.6	-0.9	-6.9	-4.7	-0.1	-5.8	-5.9	-0.4	-4.4	-5.3
in last 52 weeks	64.1	163.3	157.6	60.0	115.0	152.6	55.2	150.9	176.7	62.4	77.4	152.4

¹Based on sales.

²A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

³A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

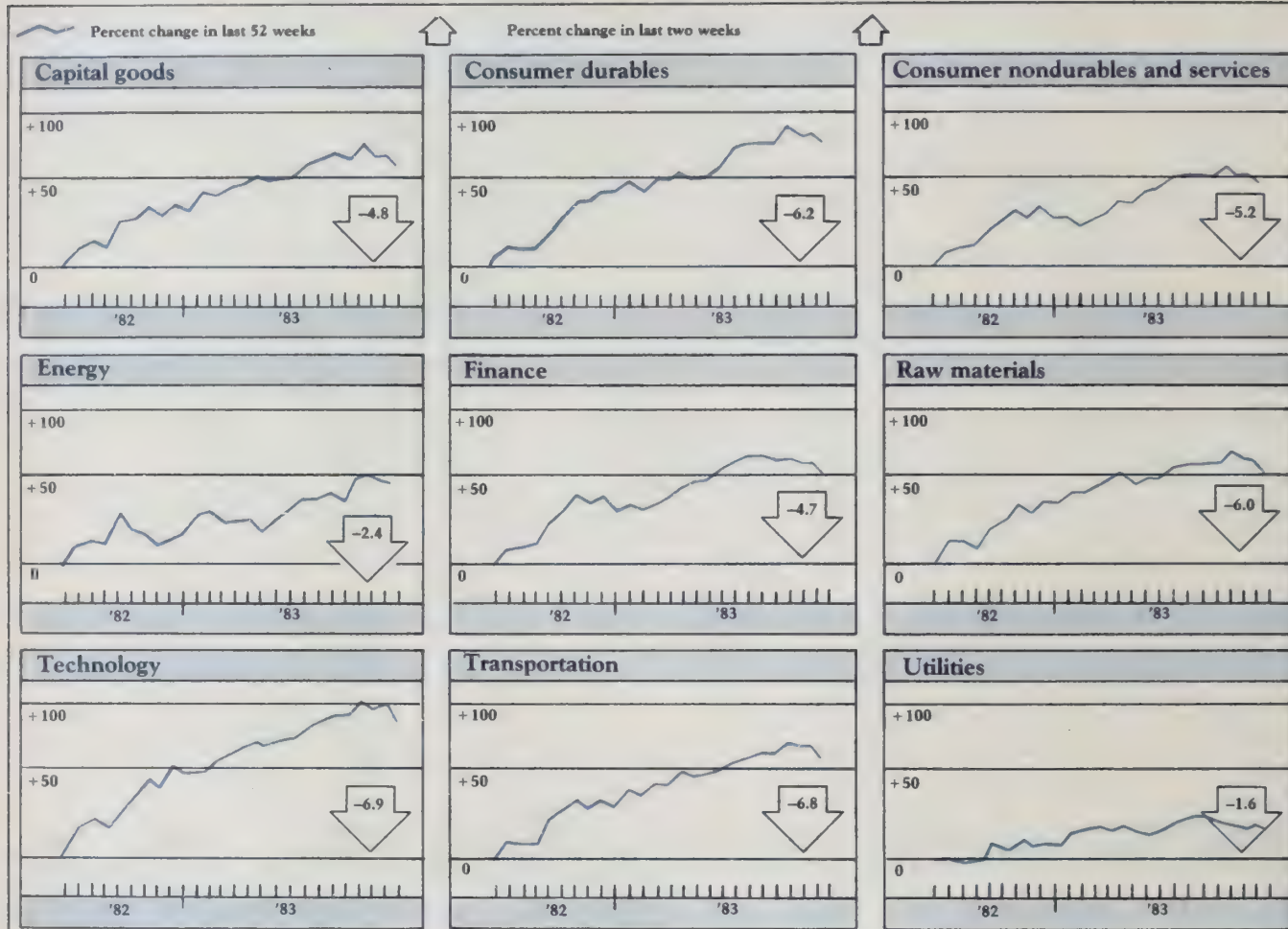
Note: All data for periods ending 8/5/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Dropped for a loss. All nine Wilshire sectors lost ground during the last month. Hardest hit were the technology issues, which declined 6.9% over the last two weeks. However, the technology group still shows the best 52-week performance, up almost 94%. Turbulence in this sector was inevitable.

Transportation stocks, meanwhile, fared almost as badly

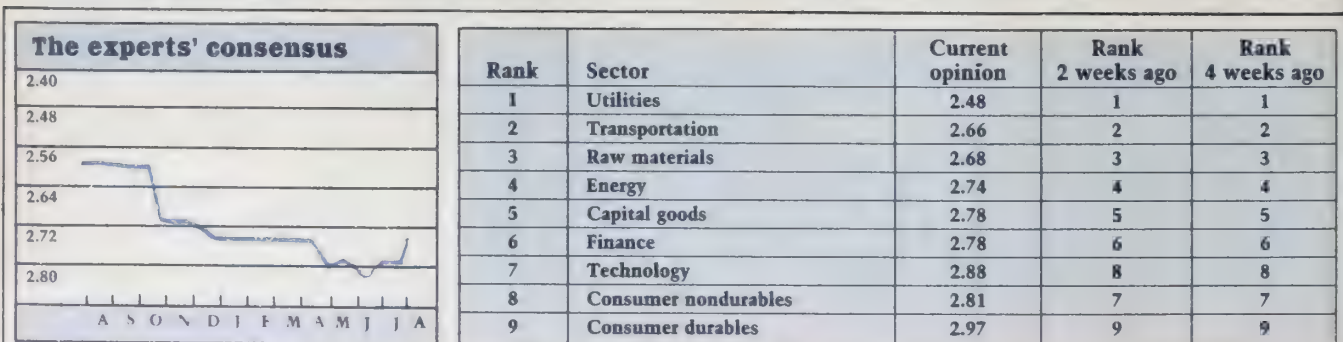
ly as technology issues and finished the two weeks with a 6.8% loss. Raw materials and consumer durables also declined 6% or more. Only energy and utility shares, with a 1.6% decline, were able to outperform the market. When interest rates rise, utilities become more attractive. Perhaps that is why analysts are now so bullish on utilities despite their weak showing during the last year.



What The Analysts Think

A sign of confidence. While the averages were falling, analysts were telling clients to keep buying. Over two weeks there was a gain in the experts' consensus. This

indicator is now up to the level it reached in mid-April. The average opinion also improved for eight of the nine sectors. Only consumer durables failed to show any gain.



Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite

rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 8/5/83. Prepared by Wilshire Associates, Santa Monica, Calif

Would the world's best airline have the second best business class?

Hardly. As a matter of fact, Air New Zealand has the best business class in the world. Pacific Class.

But don't believe us. Take a look at what the Travel Holiday Magazine Reader's Poll has to say about Air New Zealand. They voted us the best international airline for the third year in a row. Or the business class survey conducted by the English magazine Executive Travel. They gave Air New Zealand Pacific Class their maximum rating.

The point is, no matter which poll you consult, Air New Zealand and Pacific Class keep coming out on top.

We're flattered, but not surprised. After all, we fly the world's most modern fleet of Rolls Royce Boeing 747s. And our Pacific Class is in a separate section. Where you belong. We have a separate check-in. Even a special

lounge for after check-in.

Once you're on board, you'll relax in extra wide seats covered in lambswool fleece. We'll serve you complimentary drinks and appetizers. A choice of entree. French and New Zealand vintage wines.

You'll watch first rate films. Enjoy music through padded headsets. Relax in complimentary slippers and sleeping masks.

And when it comes to baggage, our preferential handling ensures your checked baggage is waiting for you. Not vice versa.

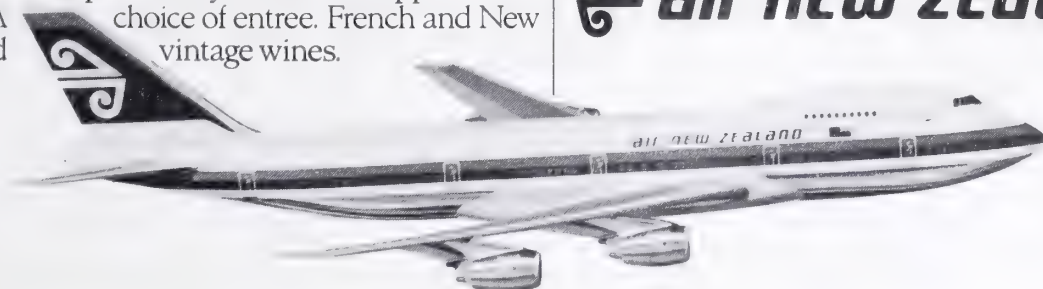
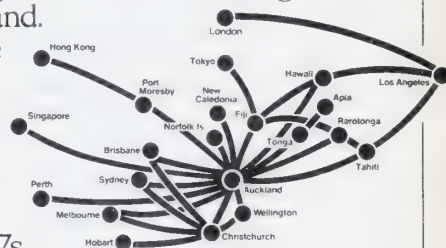
What's all this going to cost you? Not much more than economy fare. And if you're worried about getting a seat, don't. We've just enlarged our Pacific Class section.*

And now, members of United Airlines' Mileage-Plus program can accrue mileage credits on Air New Zealand.

So next time you're flying the South Pacific on business, fly Air New Zealand Pacific Class. We have luxurious 747s leaving Los Angeles every day for Australia and New Zealand.

Pacific Class. The business class you'd expect from the world's best airline.

 **AIR NEW ZEALAND**



Travel Holiday 1983 National Travel Poll

Airlines—Foreign
First Place:

Air New Zealand

Runners up: (tied)
Japan Airlines
Lufthansa Airlines
SAS Scandinavian Airlines
Swissair

Streetwalker

A neat hedge

There are two well-defined and sharply divergent schools of thought on the steel stocks. One says they are a cheap way to bet on a rip-roaring economic recovery. The other says the industry is so sick that nothing can save it. If you're on the fence between the two views, here's an interesting way to play your own lack of conviction: Go long U.S. Steel \$2.25 convertible preferred; sell a January call option at 30 on U.S. Steel common. There is little risk in that hedge. The preferred sells at a 9% yield vs. 4% for the common, and the premium over conversion is only 18%. With such a nice yield, the preferred will probably hold up pretty well even in a bear market. The cushion is further enhanced by the \$1 a share you would pocket if the call expires unexercised. But supposing steel boomed and the common stock went up? You would still end up with a nice profit, so long as the preferred maintains its modest premium over the common. Who figured out this neat deal? Jack Levande of E.F. Hutton, a specialist in convertibles. He sees it as a way to earn 25% or so on your money in six months—that's 50% annualized.—Thomas Jaffe

Stuffed duck

Hungarian-born Imre DeVegh was a legend on Wall Street—as much for his colorful metaphors as for his market coups. He made a killing on insurance stocks in the Fifties and early Sixties, likening them to ducks that stuff themselves and grow fat rather than dissipating the calories in running about. Put more elegantly, he was saying that insurance is a capital-creating rather than a capital-consuming business. Were DeVegh alive today he might be taking a look at The Travelers Corp., whose reported profits have been declining steadily since 1979. But all the while Travelers has been getting fatter. Unlike its rivals CIGNA and Aetna, Travelers has stayed close to home and away from trouble, neither diversifying nor making major mergers. Unlike them, Travelers will report higher earnings this year—and, remember, its accounting is highly conservative. That's why James Stradtner of Baltimore's Alex. Brown & Sons likes the stock. He's looking for as much as \$4.50 a share this year and \$5.25 or better next year. These will be real gains, not bookkeeping gains.

Stradtner is particularly impressed by Travelers' turnaround in personal property and casualty lines. The Travelers, at 27%, sells at a below-market multiple of 6, and the multiple's only 5 on the estimate of 1984 earnings. Now that's what Imre DeVegh would call a stuffed duck.—T.J.

Rolling with Kirk

Las Vegas entrepreneur Kirk Kerkorian (MGM/UA Entertainment and MGM Grand Hotels) usually keeps his cards well hidden, but in one nimble maneuver Kerkorian has given ordinary folks a peek at his hand and a chance to play along with him. Last year, with the price of MGM Grand common depressed at 8 and the company still reeling from a disastrous



*The MGM Grand lion
Kerkorian is the shooter.*

1980 hotel fire, the board got stockholders to approve a deal under which the company would exchange one share of new, nonvoting preferred stock for each share of common turned in. The dividend would be 44 cents a share, the same as the common was then paying.

Kerkorian himself swapped 5 million of his common shares for preferred, and other stockholders combined took 4.3 million. So Kerkorian maintained his roughly 50% control of the company. What's interesting is that Kerkorian took so much preferred. Interesting but not surprising. Under the terms of the exchange, the new preferred is callable at \$20 a share. Each year the company must buy in a minimum number of shares. To find out how many, take 75% of the previous year's net income after payment of all dividends and divide that by the \$20 call price. But MGM is

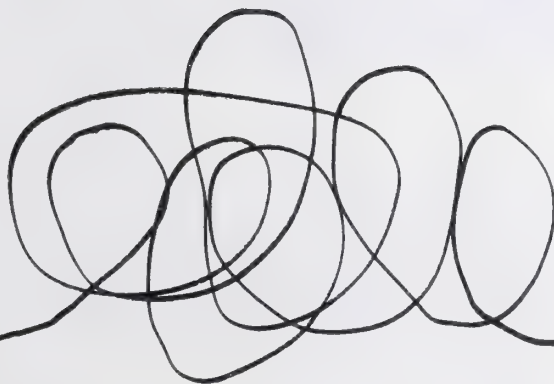
already ahead of schedule. With the preferred at \$8.50, against a call price of \$20, why shouldn't it be? As the number of preferred shares outstanding dwindles, and as MGM Grand's earnings prospects improve, the preferred's price should move closer to \$20. Kerkorian, not surprisingly, hasn't sold any so far.

Looking over Kerkorian's shoulder is as simple as following SEC reports of insider trading. That being the case, Daniel Lee of Drexel Burnham Lambert thinks it makes sense to buy the preferred, collect the dividend patiently and not make a move until Kerkorian does. If you bought 1,000 preferred at the current price of 8½ and it doubled by, say, 1988, you would have an \$8,500 gain, plus nearly \$2,000 more in dividends. That would give a compound annual return of 16.7% before taxes. "The way I look at it," says Lee, "if it gets down to the final preferred shares, there'll be at least two players I know of—Kerkorian and me. Since we're talking about Las Vegas here, you might say he's the shooter and I'm betting on the pass line."—T.J.

Eyesore

Miller-Wohl Co. is a \$222 million (sales) operator of popular-priced women's specialty stores. Quite a company, it seems: Since 1975 it has more than doubled in size without taking on any long-term debt. Business hasn't been too good lately, though, largely because the collapse of the Mexican peso virtually shuttered the company's stores on the Texas border. Then, in April, Miller-Wohl announced an agreement in principle to acquire Eyelabs, a small, four-store eyewear chain. Wall Street analysts hopped in their cars, drove out to Eyelabs' suburban New Jersey and Long Island stores and came away in rapture. The retail wave of the future! Just the thing to use M-W's \$50 million cash hoard. From the mid-30s, M-W snapped up to 55, or a P/E of 23. Alas, the deal fell through and in one week M-W lost some 30% of its market value, over \$100 million. Too bad, but Bruce Missett of Oppenheimer & Co. has consolation for the unhappy shareholders. After M-W's fall, Missett thinks that 1983 earnings will come in slightly above \$3 a share, up 20%. Missett sees M-W as a growth stock that is cheap because of a couple of probably nonrecurring situations. Meanwhile, it's about to buy a bunch of women's wear stores in nine western states.—T.J.

The last thing you need during a merger or tender offer is to get tangled up in your depository.



The key decisions have been made. The exciting part is over. Now somebody has to handle the important part: making it all work.

Usually, awarding a bank the depository function—the administration and handling of the physical exchange of stock—turns out to be an afterthought.

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To avoid all that, we've developed 80 well thought-out questions that we ask you on the front end.

Questions you probably haven't even considered. But they cover the potential hiccups, snags and fuzzy areas that can turn a brilliant acquisition into a dismal administrative mess.

The truth is, most people in your organization don't even know what a depository does.

And if it's done well, they still won't.



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Mom, pop and the kids are great at running small businesses. But can they do as well for investors in giant corporations?

All in the family

By Paul Bornstein

DID YOU EVER NOTICE that the most successful restaurants usually seem to be those where the owner is always around? Sure, it's one thing to watch the chef and the headwaiter, and another to run a company with sales of hundreds of millions. But we wondered if it pays to invest in large corporations where a family owns a big chunk of stock and is actively involved in management.

To answer that question, we set up

a simple test. First, we searched corporate records to find 50 firms in which one family or individual owned or controlled at least 30% of the common stock. Then we looked at the stock performance of these companies over the past 10½ years. We then compared this individual company performance with the performance of the relevant industry group as represented by the Media General Industrial Stock Indices.

The results are encouraging for all-in-the-family investors. From our ran-

dom sample we found that it can indeed pay to buy into firms where the owners are on hand and calling the shots. In fact, we discovered that, of the 50 companies on our list, 31 did better than their industry groups, while only 19 didn't do as well.

In terms of absolute gains, the results are particularly impressive at Bruno's, a food store chain; Flightsafety International, a firm offering high-technology training services; Manor Care, which runs nursing homes; and Wang Labs, manufacturer of computers and word processors. Since the end of 1972, the stock of each of these firms has gained more than 2,000%.

The amount of control, however, doesn't seem to be closely correlated with price movement. The Coors family has 100% voting control but Coors shares went flat during the period covered by our analysis. Since this brewer went public in 1975, the stock has declined 18.5%, vs. a 93.8% gain for Media General's brewing and distilling industry. On the other hand, Omark Industries, with the smallest amount of owner control in the table below, performed much better than Media General's light equipment industry group, 358.7%, vs. 89.4%.

The last column in the table relates stock performance to industry performance. It indicates how a dollar in-

Where the owners watch the store

Here is a list of 50 companies, all owned 30% or more by members of one family. Over the past 10½ years, 31 have outperformed their industry groups,

and the results for many have been quite good. The other 19 haven't done as well. But there is always a chance for new blood.

Company/industry	Name of family	% control or stock ownership	Recent price	—Stock performance— company since 12/29/72 industry index since 12/29/72		Relative movement company vs industry
Adams Drug/retail drug stores	Salmanson	69.9%	21½	-9.5%	78.1%	0.51
HF Ahmanson/savings and loan	Ahmanson	70.1 ¹	34	11.5	69.6	0.66
Air Express Intl/freight handling and shipping	Mailman	37.7	13	205.9	73.7	1.76
Bandag/rubber and plastic	Carver	46.2	54⅞	56.8	26.8	1.24
Bruno's/retail food stores	Bruno	42.0 ²	20⅞	2376.9	190.0	8.54
Carter-Wallace/drugs	Hoyt	51.4	24⅞	-9.0	34.5	0.68
Adolph Coors/distillers and brewers	Coors	100.0 ²	25⅞	-18.5 ³	93.8 ³	0.42
Cox Communications/broadcasting	Cox	40.8	47¼	426.8	240.2	1.55
Dollar General/retail—discount	Turner	44.2	33½	570.0	78.1	3.76
Far West Financial/savings and loan	Belzberg	67.3	27⅞	96.7	69.6	1.16
First Charter Finl/savings and loan	Taper	34.7	33¼	23.7	69.6	0.73
First City Properties/real estate—investments	Belzberg	69.0	9¼	-62.5	-20.6	0.47
Flightsafety Intl/personal services	Ueltschi	38.8	32⅞	2112.3	86.2	11.88
Hechinger/retail	Hechinger, England	65.3	27¼	967.8	218.3	3.35
Hillenbrand Inds/health	Hillenbrand	63.0	46¼	180.3	90.8	1.47

¹Including related trusts. ²Voting control. ³Less than ten years.

Source: Media General; Standard & Poor's

Where the owners watch the store

Company/industry	Name of family	% control or stock ownership	Recent price	—Stock performance—		Relative movement company vs industry
				company since 12/29/72	industry index since 12/29/72	
Illinois Tool Works/machinery—light equip	Smith	42.4 ³ %	54	61.8%	89.4%	0.85
Lance/food, pkgd goods	Van Every	43.8	28½	78.1	38.9	1.28
Lawson Products/retail	Port	32.9	35¾	133.2	218.3	0.73
Longs Drug Stores/retail drug stores	Long	33.7	46¾	19.1	78.1	0.67
Lukens Steel/metals—iron and steel	Huston	34.0	14¼	-4.6	114.4	0.44
Manor Care/health services	Bainum	43.9	22½	3016.3	90.8	16.33
Mary Kay Cosmetics/cosmetics	Kay	34.6	31¾	669.7	-47.2	14.58
Meredith/publishing	Meredith	44.0 ⁴	38¾	481.3	261.4	1.61
MITE/machinery—light	Blinken	35.7 ²	35½	735.3	89.4	4.41
Molex/electronics	Krehbiel	50.4	70½	693.1	216.1	2.51
NCH Corp/chemicals	Levy	47.5	19	-56.3	52.1	0.29
AC Nielsen/business services	Nielsen	55.7	35¾	108.8	94.2	1.08
Nordstrom/retail apparel	Nordstrom	52.0	42¼	805.4	298.8	2.27
Northwestern Steel & Wire/metals—iron, steel	Dillon	63.1 ²	24	-30.4	114.4	0.32
Omark Inds/machinery—light equip	Gray	30.0	26¾	358.7	89.4	2.42
Oxford Inds/textiles—apparel	Lanier	47.0 ¹	47	1394.1 ⁵	211.6	4.79
Petrie Stores/retail—apparel	Petrie	63.2	36⅞	41.8	298.8	0.36
Playboy Enterprises/publishing	Hefner	67.1	11⅝	-36.7	261.4	0.18
Premier Indl/automotive	Mandel	62.3	34¼	608.6	-5.1	7.47
Presley Cos/building, building materials	Presley	34.9	20	221.5	62.9	1.97
Roadway Services/freight handling, shipping	Roush	36.4 ²	64½	387.9	73.7	2.81
AH Robins/drugs	Robins	36.3	25½	-32.4	34.5	0.50
GD Searle/drugs	Searle	32.0 ¹	48⅛	40.9	34.5	1.05
Shapell Inds/building, building materials	Shapell	44.6	47⅞	129.7	62.9	1.41
Standard Register/business services	Sherman	76.0 ²	32½	473.5	94.2	2.95
Times Mirror/publishing	Chandler	31.2 ¹	76	196.6	261.4	0.82
Tyson Foods/food—meat and dairy	Tyson	61.4	11¾	735.6	77.6	4.70
United Inns/hotels, motels	Cockroft	35.2	32	4.1	86.3	0.56
Vermont American/machinery—light equip	Thomas	44.9	20½	531.0	89.4	3.33
Wang Labs/business data processing	Wang	40.2 ²	39⅞	2714.8	66.8	16.88
Wean United/machinery—heavy	Wean	50.0 ¹	7¾	82.4	51.3	1.21
Weis Markets/retail food stores	Weis	73.0	40	583.5	190.0	2.36
Winn-Dixie Stores/retail food stores	Davis	53.4 ¹	56	78.8	190.0	0.62
Jack Winter/textiles—apparel	Winter	59.0	11⅞	156.7	211.6	0.82
Wometco Enterprises/broadcasting	Wolfson	36.0	36¼	482.8	240.2	1.71

¹Including related trusts. ²Voting control. ³Less than ten years. ⁴Including related Bohen family.

⁵Including market value of Lanier Business Products.

Source: Media General; Standard & Poor's

vested in the individual company would compare with a dollar invested in a cross section of companies in its industry.

Look, for example, at Mary Kay Cosmetics, controlled by Mary Kay and her son. A dollar invested in Mary Kay over the 10½-year period outperformed a dollar investment in the Media General cosmetic industry group by almost a 14.6-to-1 margin. Mary Kay's stock appreciated 669.7%, while the cosmetic industry declined 47.2%.

Of course, not all family-owned outfits were able to outshine their peers. Hugh Hefner's Playboy Enterprises didn't do well for investors. While publishing stocks gained 261.4%, Playboy lost 36.7%. NCH Corp., run by the Levy family, lost 56.3%, while the index for the chemical group was up 52.1%. And North-

western Steel & Wire, 63.1% owned by the Dillon family, was also a poor performer.

There is another potential negative for investors in family-controlled businesses. Takeovers are difficult, if not impossible, without at least some cooperation from the family shareholders. That isn't to say that these companies are invulnerable to merger activity. Tax or estate considerations, family squabbles or an offer that is simply too good to refuse can sometimes put a family-owned firm on the block.

The Taper family, for example, which has a one-third interest in First Charter Financial, a savings and loan association, has agreed to merge with Financial Corp. of America. But Air Express International apparently won't be going to the altar with Consolidated Freightways because of a

union veto—even though J.L. Mailman, who holds 37.7% of the firm's stock apparently favored the sale.

The Belzberg family controls two of the companies in our table but, so far, the Belzbergs have been better at banking than at real estate. Far West Financial, a savings and loan, has gone up 96.7% since 1972, but First City Properties declined 62.5% in that same period.

Family ownership, of course, is no guarantee that a company will outperform others in its industry. But when the principals have a major part of their personal fortunes at stake, their best interests and those of company shareholders are often one and the same. Over the period we examined, family-owned companies outperformed their industry groups by a ratio of nearly 2-to-1. Those are the kinds of odds we like. ■



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Beginning with what was the largest AT&T operating company at our core, we've got a solid start. And we're moving fast.

Southwestern Bell Corporation. It has a nice ring to it, doesn't it?



**Southwestern Bell
Corporation**

Adroit use of the futures markets could save some companies money. Trouble is, it may make the books look funny. Accountants want to change that.

Cover your flank!

By Jill Bettner

PUT YOURSELF in a corporate treasurer's shoes: Should you try to save money in the long term, if it means showing paper losses right now? The bonus your boss gets, remember, is based on reported earnings. And his options won't be worth much if the stock price doesn't go up. It's a real dilemma.

Now suppose that in 18 months your company will need \$50 million to pay for a new plant. Should you tap the bond market today or wait until you're ready to start pouring concrete? Problems like this regularly confront financial officers, and a proposed accounting rules change may make one little-used solution look more attractive.

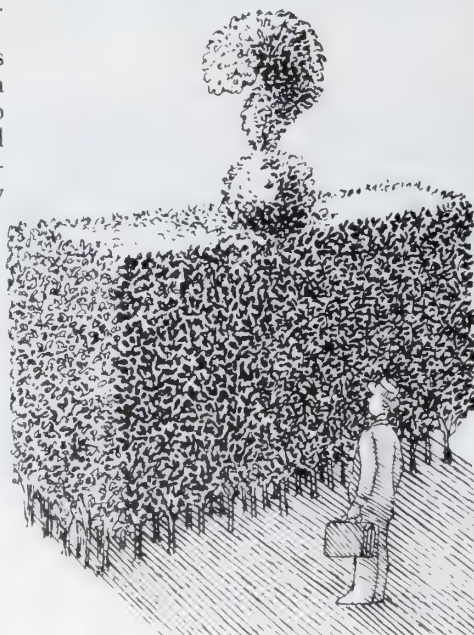
If you sell the bonds now, you will pay about 13%. And since you won't be laying out the proceeds for 18 months, you reinvest the money in commercial paper, currently paying about 9.5%. So the security of locking in today's borrowing rates costs you 3.5% for 18 months. That's \$2.6 million. Naturally, if the project is delayed, the expense is even greater.

Alternatively, you could wait the 18 months and borrow the \$50 million then. But what if interest rates have surged to 16%? For the next 30 years you will be paying \$1.5 million more in annual interest expense. That's \$45 million over the life of the bonds. A \$45 million mistake.

The third alternative, of course, is to hedge that liability. Using the relatively new interest-rate options market poses no accounting problems. But the technique is expensive—al-

though you wouldn't know that from the promotion pouring out of the Chicago Board Options Exchange and the American Stock Exchange, where the securities trade. Hedging \$50 million with options on Treasury bonds, for example, could cost more than \$6 million in premiums.

There's a cheaper way of hedging,



but it is also riskier. With options, hedging costs are fixed. With futures, they are not. Selling futures on Treasury bonds obligates the futures buyer to purchase bonds from you at that price when the contract expires or else settle up in cash. If interest rates rise, causing the Treasury bond price to fall, you will make a profit. This profit will compensate you for the higher interest rate you will have to

pay on the bonds you plan to sell.

Why is hedging with futures cheaper than hedging with options? You need about \$1,500 in margin to sell one contract that represents \$100,000 worth of Treasury bonds. On \$50 million, that's a good-faith deposit of \$750,000. That's certainly a lot cheaper than the \$6 million you would spend hedging with options. But there's a catch and its name is margin call. In a fluctuating market you could be subject to frequent margin calls. Though you would be made whole when financing time rolled around, in the meantime you could be out of pocket by many millions of dollars.

But the biggest drawback on this kind of hedging has more to do with investor attitudes than it does with high finance. However useful they may be in the longer run, in the short run, hedging can make earnings look bad for a while. When you buy futures, you must report realized and unrealized losses on contracts at the end of an accounting period. A drop in the contracts' market value hurts today's earnings. But financial statements don't reveal the savings that might get locked in for 30 years.

Aware of the problem, the Financial Accounting Standards Board last month issued a proposed solution that has been in the works for three years. Futures users would be able to defer reporting gains or losses on the contracts until the other side of the hedge—here the bond sale—was completed. Effectively, this treats futures the same as options.

The folks who make their living pushing options and futures also claim that corporate treasurers could use their wares to hedge assets such as securities investments or liabilities, including short-term loans. They hope that deferral accounting will make big business less reluctant to use options and futures for this additional purpose.

There are restrictions, all designed to prevent purely speculative use of deferral accounting on options and futures. A bank couldn't hedge long-term bonds in its portfolio with soybean futures, for example. Nor could a company hedge an expected borrowing for a plant that was merely on the drawing board.

It looks like corporate use of options and futures will get a big boost if the accounting rules are put into effect after the comment period ends Oct. 14. ■



Ted Thai

A gift of intimacy.

No grand theories—just a striving to communicate the specifics that put an audience into a character's shoes.

Of all the theories about acting one might expect from Laurence Olivier, perhaps the least expected one is the real one: that acting theories, and theorists, are sham.

The essential thing, Lord Olivier recently told a TIME writer, is specifics: not the abstraction of what a character feels, but how he looks, how he walks, that involves an audience with the figure on the stage.

It is the gift of intimacy; and it's as important to good journalism as it is to good theater. Indeed, it probably

accounts for the perennial contemporaneity of TIME Magazine.

When TIME was invented in 1923, it systematically noted the snippets of gossip, the size of noses, the habits of speech and gesture that helped make the news alive and immediate that involved TIME readers not only intellectually but also emotionally. It's more than a matter of style; there can be no style without substance. Essentially it's a matter of knowing people firsthand instead of merely knowing about them; of getting news, as often as possible, from

the people who make it; of habitually dealing not with abstractions but with specifics. It is the carefully nurtured rapport between TIME and its subjects that created the long-standing rapport between TIME and its readers: a gift of intimacy that persuades 29 million men and women around the world to read TIME each week. They get more out of TIME, because more goes into it.

TIME

More goes into it.

Kiril Sokoloff doesn't just watch earnings reports and balance sheets. He also watches what some rich investors are buying.

Piggybacking the smart money

By Geoffrey Smith

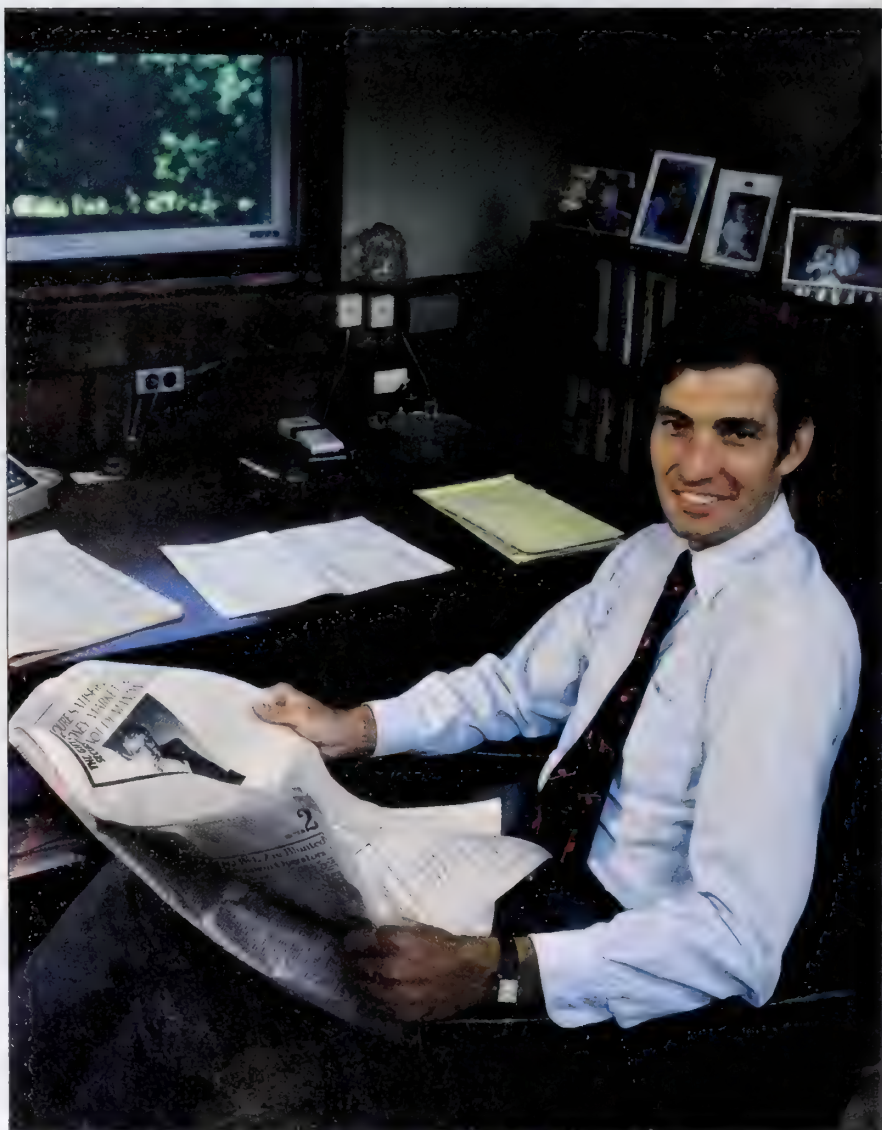
EVER DREAM about how sweet life could be if Carl Lindner, the Bass brothers or the Belzbergs kept you posted from time to time on which stocks they liked? Just a few timely tips from smart money like that and you would make a fortune, right?

Well, stop dreaming. And start reading 13-d's, the documents individuals or corporations must file with the Securities & Exchange Commission within ten days of buying 5% or more of a company's stock—and for any significant purchase or sale.

Kiril Sokoloff has been doing that for five years now, when he's not coauthoring investment books like *Street Smart Investing* (July 1983), *Is Inflation Ending? Are You Ready?* (April 1983) or *Investing in the Future* (August 1982). He has had so much success riding the coattails of smart money via 13-d's that he has started a newsletter on the topic (*Street Smart Investing*) and may begin managing money.

Let the big boys make your stock picking, pricing and buy/sell timing decisions for you, and you can't lose, Sokoloff claims. "What I particularly like to see is repeated buying over an extended period of time," he says. "Take the Belzbergs. They showed up with Bache, a very visionary investment, in the spring of 1979, buying 363,100 shares at about \$8.25, as you would have seen from their 13-d's. They bought Bache at every opportunity, amassing almost 2.5 million shares. Eventually Prudential took them out at \$32 a share, cash."

But doesn't smart money make dumb moves occasionally? What's



Market watcher Kiril Sokoloff

"Of 300 or so major investments, there's a 95% success rate."

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The Money Men

the downside risk? "Very little, unless you lack patience," says Sokoloff. "Of the 300 or so major investments that I've followed, there's a 95% success rate. I mean, sure, Henry Singleton of Teledyne and International Harvester was a bad one. He started buying in the low 30s, just as agriculture prices were peaking. True, it was selling at a discount from book, but there wasn't any book value. And Saul Steinberg of Reliance and Tiger International was probably a loss.

"Overall, however, the losses have been so few that you can easily balance them with a diversified portfolio. And if you wait, they usually come back. Take Chicago Pneumatic Tool, which lost money last year for the first time since 1932. I remember Victor Posner buying it at 18 or 19. Then it went to 11 or 12, so he went out and bought a hell of a lot more. Now the stock is back to 16 or 17.

"The risk with my approach, of course, is that the small investor will lose patience because the stock hasn't gone anywhere for a while. He'll see XYZ glamour stock going up 3, 4 or 5 points in a day and think he's missing out. But, in reality, what will happen if he buys XYZ is that he'll buy it at the wrong time, on strength, and he won't know when to get out, and so he'll probably get hurt badly in a market drop. The nice thing about beaten-down stocks is that they have already been beaten down."

Sokoloff, a former investment banker, doesn't ride those smart-money coattails blindly, however. He tracks all 13-d filings and keeps records of whose investments have done what. He also doesn't himself invest until he thinks he understands the logic behind 13-d buys. "Two large investors I follow just bought into a bridge and highway maintenance firm in Nashville called McDowell Enterprises and a company called Barber-Greene, one of the largest makers of asphalt-mixing and paving equipment. That jelled with something I'd read, a study that said 20% of the interstate highway system needed resurfacing, that 13% of its bridges had to be rebuilt and 45% of the motor bridges in the country were structurally deficient or obsolete."

The industry made sense. But why choose those two companies in particular? Sokoloff dug a little deeper until he found what he thinks is the answer. "There's plenty of asphalt-mixing and paving equipment out there, but a lot of these roads have

been resurfaced so many times you actually have to plane the road and then put down a new surface. Despite current problems, Barber-Greene has an edge over the competition in equipment that does that. And there's new legislation giving incentives to recycling old asphalt.

As for McDowell, their backlog has gone from \$60 million to \$85 million in the last year. Charter Co. owns 30% of the stock. Southern States Corp. owns another 10%, and First Wilshire recently bought 5%. Charter put in new management and a new board, including Bert Lance and Robert Bergland, President Carter's Secretary of Agriculture. Amazing how much you learn doing this."

Industry trends also emerge, in part

"The smart money buys out-of-favor, neglected stocks that nobody is paying any attention to, and waits until the market comes to them," says Sokoloff. Nor do they seem to worry much about whether the overall market is going up or down.

because the smart money appears to watch each other's moves. "Not long ago the textile industry was obviously attractive," says Sokoloff. "You had the late Charlie Bluhdorn of Gulf & Western buying Cluett, Peabody. You had David Murdoch taking over Cannon Mills. You had Victor Posner in Graniteville. You had Carl Icahn in Dan River. And the Bass brothers buying Blue Bell."

No mystery about why: The industry had been modernizing and cutting costs and appeared ready to turn around. And the price was right.

"Now we're seeing smart money in oil and gas," he goes on. "Carl Lindner bought some of Louisiana Land & Exploration. David Murdoch, who has been a large shareholder of Occidental Petroleum since he sold them Iowa Beef Processors, has been adding to his position. Saul Steinberg of Reliance just bought Quaker State Oil Refining, and Equity Oil before that. Viridian Investments, classic Graham & Doddgers, just bought a little oil company called Statex Petroleum."

The pattern is obvious, classic and rather nerve-racking for the coattail rider. "The smart money buys out-of-favor, neglected stocks that nobody is paying any attention to, and waits until the market comes to them," says Sokoloff. Nor do the investors he follows seem to worry much about

whether the overall market is going up or down. They concentrate on undervalued stocks.

But what happens in a roaring bull market like that of the late Sixties, when every stock is going through the roof? Sokoloff's old-fashioned-fundamentals philosophy doesn't work under those circumstances. "That's right," he replies. "But that's also the right time to get out of the market. If you had gone into Treasury bills in 1968 and stayed there until late 1974, it would have been nearly impossible to beat that performance."

Easy to say, hard to do. "Very hard. I remember how hard it was to get out of inflation-hedge stocks in 1979 and 1980. You can be an awfully lonely voice in the wilderness. But I tell you, when the big boys sell, that's the time to go. One of the most spectacular moves ever was that of Marvin Davis, the Denver oil guy, getting out of oil. He bought a lot of cheap oil leases in the Fifties and Sixties. But in mid-December 1980 he accepts a \$630 million offer from Hiram Walker for an interest in 760,000 exploratory acres and 830 wells. If you had sold your oil stocks at that point, you would have been within two weeks of the top."

Sokoloff has another sell signal, which he says is infallible: Sell the investment described in any bestselling investment book, even if the advice is sound. "Give you three examples," he says. "Edgar Lawrence Smith, a brilliant economist, wrote a book in 1924 entitled *Common Stocks As a Long-Term Investment*. It became a bestseller in 1929."

Another bestselling financial book was *The Money Game* by "Adam Smith," published in 1968, which was a wry meditation on all the speculating in the stock market. The public's interest in it, Sokoloff says, was a sign that the great postwar bull market in stocks was coming to an end.

Then came Harry Browne's *You Can Profit from the Monetary Crisis*, a bestseller in 1974 that basically said: buy gold. "Gold hit a peak early that year and again in the fall. Then the gold stocks lost about three-quarters of their value, and gold fell from 200 to 103, where it bottomed in mid-1976."

Sokoloff's books, in contrast, have merely been accurate, arguing that inflation will be brought under control and here's how to deal with it, and what kinds of high-technology companies to invest in just before the boom in those stocks. What happens if *Street Smart Investing* hits the best-seller list?

Sokoloff grins. "That would be the kiss of death." ■



Masako Seki, housewife, talks about her husband Masamori, Section Manager of the Planning & Development Department of Henkel (Japan) Ltd.

"Masamori likes to call Henkel 'a typical Japanese company'."

"When companies from outside Japan set up or acquire companies in Japan", says Masamori, "they often run them as they run their own companies at home".

So, Masamori was particularly surprised by Henkel's style following the acquisition in 1979 of the company he was with.

The only thing that changed was the company's nameplate', says Masamori. For him, this was not only amazing, but comforting as well.

You see, for us a company is very much like a second family. Most Japanese would prefer to work for the same company all of their lives, and Masamori was no exception. He joined the company after graduating in chemistry, 16 years ago.

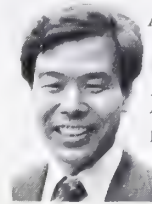
Then in 1979 we suddenly heard that Henkel was coming. What was to stop them from running the company the way companies are run in Germany?

Nothing of the sort happened. Things went on in a very Japanese way - supple-

mented by the experience of this large German company.

This is the way I see it. I like the manner in which Henkel allows Japanese things to stay Japanese. The way they respect our national characteristics. Masamori says that this in turn has earned them the respect of all of his fellow employees. And it has had an influence on how I feel towards Germany. It has aroused my curiosity, and I would like to find out more and maybe even visit the country.

Masamori loves mountaineering and going on mountain tours in his spare time, and sometimes I join him. One of our dreams is one day to climb the Bavarian



Alps. I'd very much like to get to know the country with the ideas and products Masamori is always telling me about."

My husband Masamori

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July 27, 1983

Money markets now have a veto power over the politicians.

GOOD-BYE, WILLIAM JENNINGS ...

By Ben Weberman



The Democrat-Liberals are only fooling themselves if they think they can steer the country back to the old inflationary policies of buying votes with cheap and easy money. Why? Because such policies depended upon fleecing those who saved money. You assumed—and rightly so for a while—that individual and institutional savers would subsidize spenders by lending money at a negative interest rate. Cheap money it was called, a way of taking spending power away from the thrifty and giving it to the spendthrift.

Good-bye to all that. Many congressmen still think of their majority constituents as populists at heart who want interest rates kept low, artificially low if necessary, so they can buy houses and cars and collectibles cheaply. They forget that this is a middle-class country where most citizens are—especially in the latter part of their lives—savers as well as spenders. As spenders they want cheap money, but as savers they want to get as good a price as they can for their capital. In short, savers vote, too. Politicians may still rail at bankers and at Wall Street for causing high interest rates, but that's hypocrisy, plain and simple.

For the first time in years, savers are in the saddle. Consider what has

happened in the past decade. A whole array of steps were taken permitting banks and thrifts to pay more than the basic passbook rate. Today we have virtually a free market in savings.

How does this affect the politics of inflationary expansion? Take the ever larger middle-aged and elderly part of the population, a potent political force that politicians always considered safely in the low-interest-rates-at-any-cost camp. Elderly people are particularly alarmed about inflation because they live on fixed incomes. Until a few years ago they were satisfied with their 4%-or-so savings accounts. Now, having tasted 11% money market deposit accounts, and 15% to 19% from money market mutual funds, the residents of Ft. Lauderdale and Phoenix can't see any advantage to political giveaways at their expense.

Now an increase in market interest rates means an immediate increase in the institutional cost of money. Bankers feel pain from high interest rates just like everybody else does.

Today money is like any other commodity. When demand for money rises, so does the price. When the price rises, the housing, auto and appliance industries are slowed instantly.

For example, between mid-May and late July, the federal funds rate, which is controlled closely by the Fed through open-market operations, moved from 8.7% to 9.6%. That wasn't a substantial move. The yield on long-term Treasury bonds went from 10.5% to 11.3%. But the change did not stop there. It rolled like a tide through the fixed income markets as everyone switched to defensive postures, and then, like a self-fulfilling prophecy, pushed up interest rates every-

where. By early August, Treasury bond prices had backed down and yields rose to more than 12%. The bearishness even spread to stocks, which slumped, recognizing that higher interest rates mean a slower economy.

All this, as Paul Volcker has pointed out, resulted from only "a slightly less accommodative posture toward the provision of bank reserves" by the Federal Open Market Committee beginning in late May. That modest tightening, in combination with the gathering recovery, had a leveraged effect on interest rates. Although the recovery in the economy is less than a year old and the demand for bank loans is still sluggish, long-term interest rates as measured by 30-year Treasuries have already risen nearly two full percentage points. If we were to see a really inflationary injection of money into the economy—or even the prospect—we would see interest rates that would make last year's look cheap. But this isn't going to happen.

Volcker still gives priority to containing inflation. I am convinced he wants the pain now rather than in 1984 just before elections, a timetable sure to please President Reagan. So I think we are in for more interest rate instability.

Am I then reversing myself and no longer predicting that interest rates are headed down over the medium term? No. What Volcker has already done will suffice to dampen the desire and the ability to rebuild inventories or build new facilities. Individuals will be more cautious. Those who can still afford to buy homes will wonder if taking on 14% or 15% mortgages is really a wise decision. The speed and intensity with which the markets and their new allies, millions of individual Americans, will punish that \$200 billion-plus federal deficit is going to be astonishing.

No, interest rates will not go through the roof, because the markets themselves will thwart any return to Democrat-Liberal cheap-money policies. The politicians would do well to bury William Jennings Bryan once and for all. The money markets, through the massed power of the savers, now have a decided veto power in economic policy. ■

Ben Weberman is economics editor of FORBES magazine.

What are the business implications if we now live in an era of increased pessimism and reduced expectations?

GIVING UP ON THE AMERICAN DREAM

By Thomas P. Murphy



He is Arthur Anderson. Not the accountant but the sociologist who teaches at Fairfield University in Fairfield, Conn. and consults with businesses. I was so beguiled by a lecture that Anderson gave—it explained so much about the America we are living in, investing in and doing business in—that I continued the conversation.

"The problem for young people," says Dr. Anderson, "is the old American dream. College students have great anxieties about whether they will live as well as their parents lived. The old pattern of expectation—that you probably will do better than your parents—is gone. It doesn't work that way anymore.

"The job market, for the college educated, is really much worse than most adults realize. The kids understand this perfectly well, but their parents don't. My generation [Anderson is 51] still thinks that a B.A. or a B.S. or certainly a master's degree gives its holder a solid grip on middle-class status and income. It does not anymore.

"Just compare the lifetime earnings expectations of college and noncollege graduates. Thirty years ago the lifetime earnings of the college graduate were double that of high school graduates. Now the incremental earnings for college

graduates are only about 20% more than high school graduates. In pure economic terms, college no longer makes sense for most people.

"The U.S. probably has 30,000 to 40,000 surplus Ph.D.s. We are graduating twice as many lawyers as the country can possibly use. Half of them will never practice. Around Boston you will even find engineering grads from top universities, especially chemical engineers, having difficulty finding jobs.

"There is a paradox in this. A bad job market is keeping the graduate schools filled. There may not be much economic value in most advanced degrees, but getting one delays facing the job market.

"The kids have become intensely practical. When I started teaching, the main function of undergraduate business schools was to give basketball coaches a place to stash players to keep them qualified. It was considered impossible to flunk a marketing course.

"Now at Fairfield University, one-third of the undergraduate enrollment is in the business school, and the quality of students is high. We get three qualified applicants for every available slot. On the other hand, we have seven physicists on our faculty, and we are graduating seven or so physics majors a year.

"Lifestyles are changing radically, and I am not sure business people understand the implications. For instance, 52% of the baby-boom generation is divorced by age 34. One thing America is going to need is an H&R Block of divorces.

"By 1990 we estimate that 45% of all households will be headed by a single adult. That means there is going to be a huge and probably unmet need for smaller rental units.

"Housing, in fact, dramatizes a lot of other things that have been

happening to us—little growth in productivity or in the economy. The result is that only 15% to 20% of American families can qualify for the housing industry's 'standard' product of the future—a single family dwelling with about 800 to 900 square feet of living space, no bathtub and a price tag of \$70,000.

"It is not a joke. Most families literally could not qualify for mortgages to buy the houses they are living in. This means that millions of the baby-boom generation are moving back in with mom and dad because housing, particularly rental units for singles, is not being built.

"Mom and dad may not want them. Therapist friends of mine tell me that they have a lot of middle-aged patients wondering if parenting ever ends. Their kids leave, lose their jobs or get divorced and come back home.

"Americans, compared with people of other countries, are losing their optimism. Surveys in the past always found us the most optimistic people in the world. Now, one survey I saw places us 17th in the Free World. For the first time Americans are also more worried about themselves than they are about their society. In the past, surveys regularly found Americans who were pessimistic about their country's future but optimistic about their own. It was 'I've got this four-wheel-drive pickup' or 'I've got a boat and if anything happens, I'll take the family and. . .'

"Education made us a country of middle-class expectations. People, if they can't realize their expectations in big ways, find small ways to do it. The entrepreneur who founded David's Cookies is a marketing genius. He realized that people who wanted a BMW but couldn't afford it would buy David's Cookies at \$6 a pound or Godiva's chocolates at \$20 a pound. Buying those little luxuries is a way of saying, 'I really am solidly upper middle class. I'm part of the American dream.'"

So Anderson sees a pessimistic America, cherishing small luxuries because the big ones are out of reach. A land of people who are disillusioned but sobered into practicality. If the professor is right, doing business in the 1980s and beyond is going to be a lot different from what we have known for 30 years. ■

Thomas P. Murphy is a venture capitalist firm, Partnership Dankest, Stamford, Conn.

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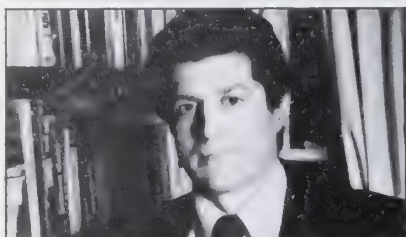
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August 1, 1983

Do subordinates snicker quietly to themselves when you talk about computers?

CALLING MRS. MALAPROP

By Srully Blotnick



A lot of executives are losing face as a result of computer malapropisms. Three times in the last few weeks I have witnessed executives incorrectly using a computer term. Subordinates giggled to themselves and lost no time telling others about the blunder. Any executive who doesn't know the difference between such terms as microprocessor and micro-computer, multiprogramming and multiprocessing is vulnerable to a similar loss of prestige.

For instance, Ted is the president of a financial services firm. He announced at lunch that he was buying a snazzy new memory storage unit for nearly \$100,000. As he proudly put it, "We'll be able to do a lot more multiprocessing now."

When he excused himself to make a phone call, two junior executives started to laugh. What was so funny? A computer's memory holds two things, programs and data. Sometimes it houses only one—some programs—and the user punches in the data and waits for the machine to respond ("interactively") before typing in more of it.

However, most computers, even micros, can hold *more than one program* in their memory, assuming each program is small. The comput-

er is then in a position to run whichever you choose. That is convenient, and it is called *multiprogramming*. In short, the programs (plural) sit in the computer's memory waiting for you to call the one you want—by name. Otherwise, like records on a turntable, you would have to take off the old one before you could get a new one to run. Ted's computer could already do multiprogramming. What his new memory unit will add is the ability to house more programs and, therefore, do more of it.

A second humiliating incident I witnessed involved Jeff, a 49-year-old retailing executive. After a business meeting Jeff overheard someone say, "The price of microprocessors has plummeted in recent years, from hundreds of dollars to under \$5." Jeff, who has begun shopping for a home computer, shot back: "Then why is that jerk in the computer store trying to sell me one for more than \$2,000?" His audience just rolled their eyes skyward. "What did I say wrong?" Jeff asked an assistant as they left.

Just this: Microprocessor is to microcomputer as your brain is to your body. A microprocessor doesn't need a TV screen (an output device) or a keyboard (an input device) in order to function, any more than your brain needs your hands or your eyes in order to think. The VDT (video display terminal) is there for the user's benefit. What is a microprocessor? The tiny part of a computer that, above all, fetches instructions one at a time from memory, where they are stored, and executes them by performing logical and arithmetic operations.

Most of what you are paying for when you buy a computer, then, is all the other stuff—a keyboard, VDT, printer, memory chips, disk

drives, an operating system (the software that makes all the hardware function harmoniously)—not the microprocessor. In fact, it is only when the microprocessor is combined with a memory and input/output devices that the resulting unit is called a microcomputer.

Multiprocessing, therefore, requires *more than one processor*. When they are in different locations, one speaks of *distributed* data processing. However, Intel and Motorola are working on microcomputers that will each contain more than one microprocessor. For the moment, though, the vast majority of microcomputers have only one microprocessor.

To avoid making some of these errors, you might want to look at a new book called *Keeping Up With the Computer Revolution* (John Wiley, \$22.95). Informative reading that requires no previous knowledge of the subject. People with some background in the field will enjoy B.W. Lampson's new book, *Distributed Systems—Architecture and Implementation* (Springer-Verlag, \$19.95).

The third incident was at an industry conference where a top executive of a Forbes 500 company remarked: "Well, at least the one thing we don't have to worry about is computers that *speak*" (meaning, fluently, in English). The comment overlooked the fact that this is an active area of research in which real progress is being made. One key goal is a machine that reads text aloud. Feed it a book or a newspaper, and it will read it to you. The work is being done for, among others, telephone companies and the blind, but I'm betting that the lazy will make even greater use of it, as will busy business people.

A good measure of how hot this topic is can be seen in what happened to *Principles of Computer Speech* (Academic Press, \$32), a book by Ian Whitten. The first printing sold out in three months, an unusual event at a scientific publishing firm. People who know a little about hardware and software should take a look at this excellent work if they want to see an important development in the making.

On the other hand, if you are in no hurry, wait until the machines it discusses are ready and have one of them read it to you. ■

Dr. Srully Blotnick is a research psychologist and author of Getting Rich Your Own Way and Winning: The Psychology of Successful Investing.

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Fred Gehm's new book has the answers to many commodity traders' questions.

COMMODITY TRADING AS A BUSINESS

By Stanley W. Angrist



It is generally acknowledged among commodity professionals that neophyte traders consistently lose money to the pros for two reasons: 1) lack of money management skills; and 2) lack of a sound trading system. It is also generally acknowledged that, with some effort, the former skills can be learned. So why don't more traders make an effort to learn money management? The answer to that question has had to do with the lack of available information on the subject.

Fred Gehm, a consultant to commodity money managers, has now eliminated that excuse. His book, *Commodity Market Money Management* (John Wiley & Sons, Inc., New York, \$34.95), covers the subject as completely as I have ever seen done. He treats commodity trading as it should be treated—as a business. Even if you ignore the latter chapters, which teach you to use statistical techniques in money management, there is enough nonmathematical good sense on the art of commodity speculation in the early chapters to make the book a worthwhile purchase. Note: This should not be the first book on commodity trading that a trader buys.

The author starts his discourse by pointing out that good money man-

agement alone cannot guarantee success in the markets precisely because it is a managerial skill. The other skills needed in commodity trading are entrepreneurial, and, unfortunately, such skills cannot be easily taught. They demand not so much tools and techniques as ideas and actions. Managerial tasks are important but not critical; entrepreneurial tasks are critical. The trader's only necessary entrepreneurial task is to produce a trading idea, that is, a forecast. Without forecasts, trading profits are impossible. How reasonable or likely it is that a trader can successfully forecast the market is a question of probabilities and statistics, two subjects discussed in considerable mathematical detail in the book.

Repeatedly Gehm makes the point that money will be taken out of the market by those who know the market best. He does not believe that the market is so efficient that it is impossible to extract any profits from it. Since the commodity market is a zero-sum game—for every dollar made, there is a dollar lost, excluding transaction costs—Gehm believes that traders with average or below-average knowledge are doomed.

Gehm, again and again, brings to the reader's attention ironies that, once read, become obviously true. Consider: "The only rational people who play the market are those who expect to win. Yet the nature of the game demands that some of them lose. A zero-sum game demands losers, and anything that prevents losers from entering the game must necessarily stop the game or turn potential winners into losers."

Gehm cites some evidence that commodity traders will accept advice but only if it is bad. He has developed a theorem on this notion.

"All profitable trading methods are dependent upon some bias among market participants; this bias both creates profit opportunities and inhibits their discovery." The author points out that most traders are likely to select just those trading methods *least* likely to be profitable. Indeed, he adds, if you discovered a strong enough bias among traders, you could publish your discovery in the *Wall Street Journal* and still trade it profitably forever. If it were a true bias that leads to profitable trading, it would simply be ignored by almost all traders.

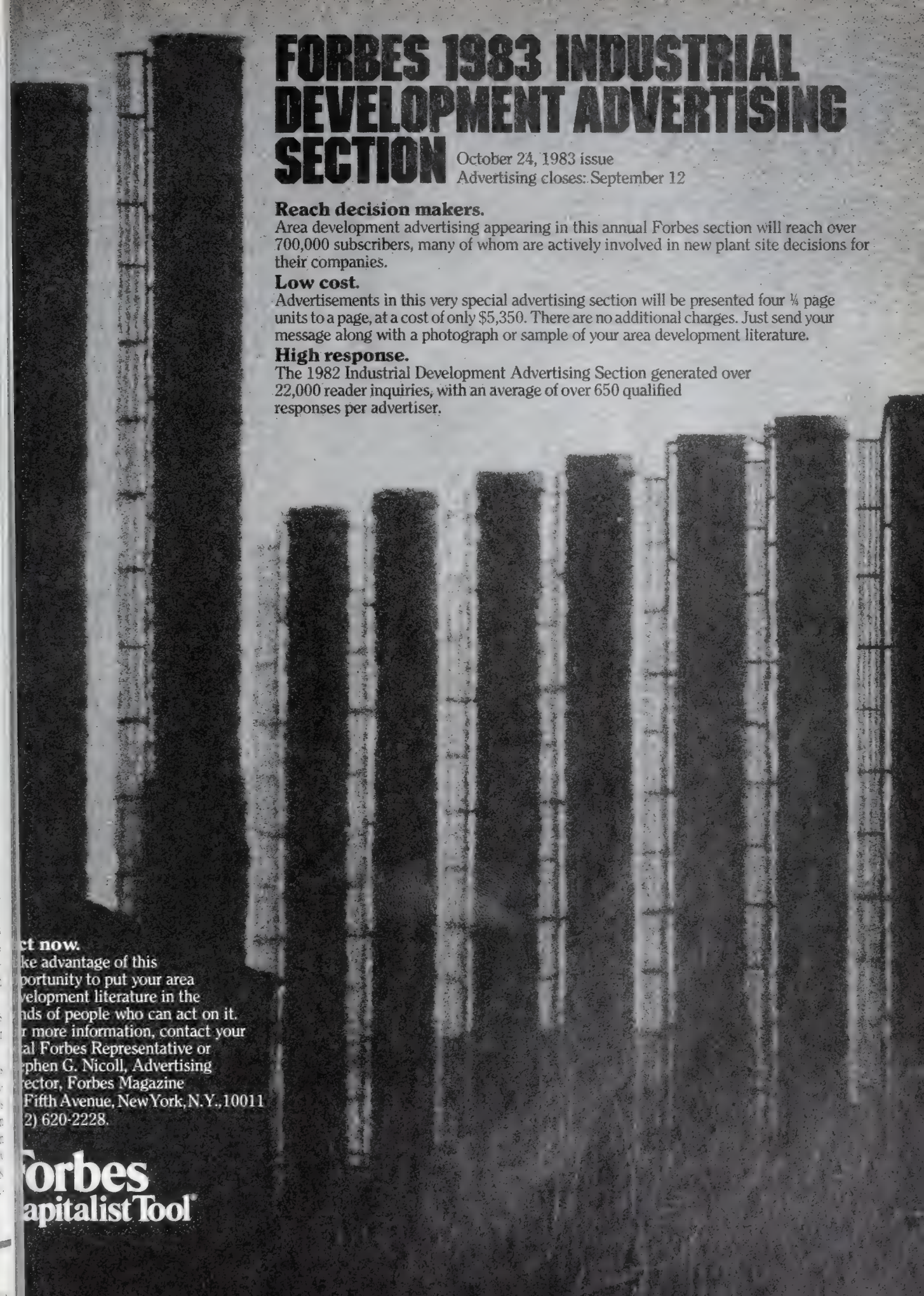
The single biggest contribution that Gehm's book will make to commodity traders is his chapter on trading plans. He states that any trading plan will be superior to no trading plan because every plan causes a trader to consider strategy and tactics in more detail than a trader would otherwise. He even argues that an unwritten plan is better than no plan at all.

Writing a plan has the virtue of allowing a trader to audit his own performance. Periodic audits are critical because without them there is a very strong possibility that a trader will continue to make the same mistakes. Without a trading plan, such audits are impossible. When important sums of money are involved, it is difficult not to lie to oneself. The trader who does lie to himself will rarely admit to such lying unless confronted with written evidence.

A written trading plan is a set of forms and work sheets. A reasonably complete set might include a strategic plan, a tactical plan, a watch sheet, a log book, a work sheet and an operating statement. Naturally, a trader need not use all of these tools. Gehm describes these documents and a serious trader might employ them to bring both order and honesty to his trading. Would that all commodity traders considered the wisdom in chapter seven of Gehm's book.

I believe that any trader who is serious about improving his trading would find the cost of this book an excellent investment. In addition to being available from the usual sources, the book may also be purchased from F. Gehm & Associates, P.O. Box 70314, Sunnyvale, Calif. 90486. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.



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October 24, 1983 issue

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AMETEK, Inc. N

AMETEK COMPLETES PURCHASE OF DUPONT'S MICROFOAM BUSINESS

NEW YORK, N.Y., July 27, 1983—AMETEK, Inc. (NYSE-PSE) said today that it had completed its previously-announced agreement to purchase the Microfoam plastic packaging materials product line and related Wurtland, Kentucky manufacturing facilities from the DuPont Company for more than \$11 million in cash.

Microfoam is an ultra light-weight flexible packaging and shipping material developed by DuPont in the '70's, which produced sales in 1982 of about \$16 million, according to AMETEK chairman Dr. John H. Lux. Dr. Lux said that his company had purchased the 110,000 square foot Microfoam production plant on 16 acres in Wurtland, an Ashland, Kentucky suburb, in addition to the extensive patents, formulations, and rights to the Microfoam process and trade name.

"The Wurtland plant will continue to operate as a separate division of AMETEK," Dr. Lux said, "and we have appointed Herman C. Koch, a 33-year DuPont veteran, as general manager of the new AMETEK Microfoam operation. Herm Koch went into marketing and management of DuPont packaging materials in the mid-50's, and has been involved with the Microfoam business from its earliest stages. Under his direction, and with the support of the outstanding Microfoam people who are joining AMETEK, we expect to expand this business and develop new markets for this unique product," Dr. Lux said.

Marketed through a nation-wide distributor organization for industrial packaging applications, Microfoam has replaced paper, corrugated materials and other plastic materials in many shipping and mailing applications because of its superior cushioning properties and ultra-low density; a ten-square foot sheet of one-eighth-inch thick Microfoam weighs only one ounce. It is widely used to cushion electronic components, appliances and furniture in shipment. A chemically inert material, Microfoam is also used as protective packaging for food products and fresh produce. Its thermal insulating qualities have made it a specified barrier material in horticulture and construction, including roofing membranes and concrete curing applications.

AMETEK, a FORTUNE-500 industrial manufacturer listed on the New York Stock Exchange since 1930, reported its fourth consecutive quarter of record earnings last week, with second quarter net income up 17 percent to \$8.3 million or 39 cents per share on its newly-split stock, making this the most profitable quarter in the company's history.

(Contact: Darrah E. Ribble, Jr., AMETEK, Inc. Station Square Two, Paoli, PA 19301, or phone (215) 647-2121.)

AMETEK, Inc. N

AMETEK REPORTS EARNINGS

UP 17 PERCENT IN SECOND QUARTER

PAOLI, PA., July 21—AMETEK, Inc. (NYSE-PSE) reported the most profitable quarter in the company's history with earnings up 17 percent in the second quarter ended June 30th. First half totals were also at record levels for the industrial manufacturer.

In the three month period ending June 30th, Ametek's net income reached \$8.3 million or 39 cents per share on its newly-split stock. (A 100-percent stock dividend was distributed July 15 to stockholders of record July 1, 1983.) Second quarter sales showed continued improvement at \$108.9 million, slightly ahead of 1982's second quarter when the company shipped \$105.6 million which produced net income of \$7.1 million or 33 cents per share (adjusted for the recent stock split).

Net income for the first half of 1983 was also a record for AMETEK at \$15.9 million, up more than 12 percent over the \$14.2 million profit in the first six months of 1982. Earnings figures, adjusted for the stock split, showed AMETEK earned 73 cents per share in the first half, versus 65 cents per share in the same period last year.

"While we're still seeing some soft spots, over-all AMETEK

is enjoying a steady recovery of new orders and business volume," company president Robert L. Noland reported. "Net income has been strong and should continue to improve due to a combination of increased productivity from new plants and more efficient production equipment, the continued benefits of a stringent cost cutting program begun in anticipation of last year's recession, and slightly more favorable tax rates," Noland said. "Record earnings in the current quarter continue a growth pattern begun in 1970," Noland added, "representing the 47th quarter in the past fifty in which Ametek's earnings have increased, when compared to the same three months of the previous year."

AMETEK'S Industrial Materials Group of aluminum and plastics business is showing the strongest upturn, according to Noland, and its Lamb Electric motor division also recorded a steady improvement in new orders, reflecting the recovery in construction, automotive and appliance markets. Noland said the company had not yet seen a recovery in the capital goods market and most of AMETEK'S Process Equipment group remained slow. "Certain parts of the Precision Instruments group—newly-introduced electronic instruments, and especially systems for water measurement and conservation—are doing quite well," Noland added.

AMETEK, INC.

3 Mos. Ended June 30	1983	1982
Sales	\$108,878,000	\$105,592,000
Net income	8,329,000	7,140,000
Earnings per share	.39*	.33*
Average shares outstanding	21,608,526*	21,800,026*

6 Mos. Ended June 30	1983	1982
Sales	\$213,516,000	\$216,250,000
Net income	15,890,000	14,152,000
Earnings per share	.73*	.65*
Average shares outstanding	21,789,804*	21,791,062*

In the past four consecutive quarters, AMETEK earned \$1.33* per share.

* Figures adjusted to reflect 2-shares for 1 stock split distributed to stockholders of record July 1 as a 100 percent stock dividend on July 15, 1983.

(Contact: Darrah E. Ribble Jr. of AMETEK, Inc. at Station Sq. Two, Paoli, PA 19301, or phone (215) 647-2121.)

BELL NATIONAL CORPORATION O

SAN MATEO, CA., July 22—Bell National Corp. (NASDAQ: BELL), a savings and loan holding company engaged in the financing of commercial and residential properties, real estate development and other financial services, headquartered in San Mateo, Friday reported record earnings for the second quarter ended June 30 of \$5,809,000, or \$1 per primary share, or 99 cents per fully diluted share, on revenues of \$27,449,000.

This compares with a profit of \$27,000, or 2 cents per share, on revenues of \$12.1 million in the like year-ago quarter.

For the six months ended June 30 earnings were \$11,987,000, or \$2.07 per primary share, or \$2.04 per fully diluted share, on revenues of \$54,284,000 compared to a loss of \$1,803,000, or 54 cents per share loss, on revenues of \$20,995,000 for the similar six month period last year.

David L. Butler, President of Bell National Corp. and Chief Executive Officer of its principal subsidiary, Bell Savings and Loan Association, indicated that Bell's secondary spread, the difference between its cost of funds and its yield on earnings assets, was 2.06 percent on June 30 as compared to a negative 1.18 percent a year earlier.

From its equity participation lending activity, the company also estimated that it had a potential unrecognized benefit of \$33.2 million, of which \$12.8 million is attributable to loans recorded during the second quarter.

Through equity participation agreements Bell had obtained a portion of the equity in certain real estate projects upon which it had made mortgage loans.

Realization of income from these participation agreements is contingent upon the market value of each project at such time as the equity payment obligation to Bell matures.

Bell's estimate is based upon its valuation made when the project loan was approved and does not include fluctuations in market value.

(Contact: James L. Grauer, President, Bell National Corporation, 400 South El Camino Real, San Mateo, CA 94402. Phone: (415) 348-8200.)

COMPUTER TASK GROUP INC.

ANNOUNCES RECORD REVENUES AND ACQUISITION

BUFFALO, N.Y., July 18—Computer Task Group Inc. (NASDAQ: CTSK) a computer services company headquartered in Buffalo, Monday announced record revenues and increased earnings for the second quarter and first half of 1983.

Quarterly revenues of \$13,011,000 represents a record level for CTG and an increase of 33 percent over 1982.

Earnings per share after adjusting for a 4-for-3 split (record date: May 13) were 19 cents, a 58 percent increase over last year's level of 12 cents.

Revenues for the first half of 1983 totaled \$24,198,000, an increase of 22 percent, while adjusted earnings per share were 35 cents, an increase of 13 percent.

The primary contributing factor for the second quarter improved earnings over last year was the strong performance of the company's Professional Services Division.

On July 14, CTG announced its acquisition of Autor Business Systems Inc., a New York-based professional services company. Four months earlier, it had acquired Diversified Systems Inc., a firm based in St. Louis, Denver. The two acquisitions added about 100 people to CTG's staff, bringing its total employment level to more than 1,125.

Computer Task Group Inc., a Buffalo-based firm, with offices in 20 major U.S. cities and estimated 1983 revenues of \$50 million, is one of the largest suppliers of computer-related professional service in the United States.

Among its services are business programming; systems analysis and design; engineering scientific and process control programming; and consulting.

CTG's Professional Services Division derives 90 percent of its revenue from clients which are Fortune 500 companies or Fortune 500 industrial companies.

(Contact: William P. Adamucci, Vice President-Financial, Computer Task Group Inc., 800 Delaware Ave., Buffalo 14209. Phone: (716) 882-8000.)

DRESHER, INC.

CHICAGO, IL., JULY 28—Dresher, Inc. (NASDAQ: DRES) has reported higher sales and sharply increased earnings for the fiscal year ended June 30, 1983 as compared to the prior year.

The company also announced that its Board of Directors has approved plans for a two-for-one increasing the outstanding shares to approximately 1.5 million. The split is subject to stockholder approval at the 11th annual meeting and a final review by the Board of Directors of Dresher. Dresher holders will be asked to increase the authorized common to three million shares from one million. The announcement said the split is designed to increase trading activity and broaden the potential market for the company's common stock. Dresher currently has approximately 600,000 shares outstanding.

In the announcement, A. Barry Merkin, Chairman and Chief Executive of Dresher, stated that "the outstanding results—achieved in the midst of a deep recession exceeded our expectations." He added, "Most important, the fact that the pace of current incoming orders is strong. We expect fiscal 1984 results to be well ahead of last year."

In the fiscal year ended June 30, Dresher reported income of \$691,000 or \$1.18 a share, almost triple prior year's net income of \$237,000 or 42¢ a share. For the year amounted to \$19.8 million, up from \$12.5 million a year ago.

In the fourth quarter ended June 30, Dresher's net income

CORPORATE REPORT

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30% to \$267,000 or 44¢ a share, as compared to \$5,000 or 36¢ a share in the year before. Sales for the quarter amounted to \$5.8 million, an increase of 20% from prior year sales of \$4.8 million.

Among the factors cited by Mr. Merkin for the sizeable earnings gains were a 14% improvement in productivity—as measured by sales per employee—and the increased effectiveness of the sales and marketing organization. Mr. Merkin attributed the favorable results to “Dresher’s growing position of leadership in the industry, the expansion of its product line to include brass-accented white metal beds, new styles of brass beds as well as a broad range of brass accessories, and the growing consumer acceptance of quality brass beds and related products.” Merkin added that Dresher’s increased customer base now includes distribution through most major furniture retailers in the country.

Dresher is the country’s leading maker of brass beds. It came a public company early in January 1983 via a distribution of its stock to the stockholders of its parent company, Standex International Corporation.

	First Quarter Ended June 30		Fiscal Year Ended June 30	
	1983	1982	1983	1982
Sales	\$5,794,000	\$4,830,000	\$19,239,000	\$18,198,000
Income	\$267,000	\$205,000	\$691,000	\$237,000
Earnings per share	\$.44	\$.36	\$1.18	\$.42
Outstanding shares	620,050	559,203	584,972	559,203

Contact A. Barry Merkin, Chairman, Dresher, Inc., P.O. Box 8, Bedford Park, IL 60499. Phone: (312) 594-8900.)

HOSPITAL CORPORATION OF AMERICA **N**

NASHVILLE, TN., July 18—Hospital Corporation of America today announced continued steady growth for the second quarter and first six months of 1983. President and Chief Executive Officer Thomas F. Frist, Jr., M.D. reported strong performances in all areas of the company’s operations during the quarter.

HCA’s growth can be attributed primarily to continued expansion of the company’s U.S. and international hospital operations through construction, acquisition and management of hospitals for others,” said Frist. “HCA’s sustained emphasis on the efficient delivery of quality patient care is reflected in year-to-date 2.8 percentage point improvement in operating expenses as a percent of revenues,” he added.

Frist reported that HCA’s financial position was further strengthened in May 1983 when an \$80 million issue of dollar indebtedness was converted into equity. “HCA’s strong financial position of 52 per cent debt-to-48 per cent equity represents the strongest financial position in the company’s history,” Frist stated.

Revenues for the first six months totaled \$2,558,000, up 13 per cent from \$1,750,492,000 in the same period of 1982. Net income increased 45 per cent to \$130,010,000, compared with \$89,513,000 last year. Earnings per share increased 25 per cent to \$1.51, compared with \$1.21 in the first half of 1982. The 1982 per share figure is adjusted for the company’s 4-for-3 stock distribution in January 1983.

In the second quarter, revenues totaled \$974,289,000, up 1 per cent from \$876,127,000 in the same period of 1982. Net income increased 48 per cent to \$61,000,000, compared with \$41,321,000 in the second quarter of 1982. Earnings per share increased 25 per cent to \$.70, compared with \$.56 last year (split adjusted).

During the second quarter, 10 hospital construction projects were completed, including a 150-bed hospital in Greenville, N.C., a 140-bed facility in Lafayette, LA., a 206-hospital in Corsicana, Texas, a 200-bed hospital in Dallas, Texas and a 125-bed psychiatric facility in Hampton, Texas and Virginia facilities replaced older hospitals owned by HCA. An additional 37 hospital projects were under construction at June 30, 1983.

In June, HCA acquired two hospitals in Wharton, Texas which were previously owned by a not-for-profit foundation. Plans to consolidate the two facilities and build a new replacement hospital. In addition, HCA acquired a spinal cord rehabilitation center in Florida during the quarter.

Eleven new management contracts were signed during the second quarter comprising a total of 1,400 beds. The new managed facilities added during the quarter are located in Alabama, Georgia, Michigan, Minnesota, New York, North Carolina (3), Pennsylvania, Tennessee and West Virginia. At the end of the quarter, 155 hospitals were managed for other owners. Two additional contracts became effective July 1, in Savannah and Folkston, Georgia.

In June, HCA and Vanderbilt University Medical Center announced an agreement in principle to build and operate an 88-bed child and adolescent psychiatric hospital in Nashville. This project represents the first joint venture between HCA and a university medical center. HCA’s psychiatric subsidiary is currently the leading owner and operator of psychiatric hospitals in the United States with 24 facilities and approximately 3,000 beds.

Internationally, the company’s operations were expanded during the quarter with the acquisition of an additional hospital in Australia and completion of constructions of hospitals in England and in Brazil. HCA’s international subsidiary now owns 11 hospitals in Australia, six in England and six in Brazil. In total, HCA subsidiaries own or manage 31 international hospital projects in seven countries.

HCA is a publicly owned international health care company committed to the delivery of quality patient care at a reasonable cost. HCA and its affiliates now own or manage for others more than 370 hospitals with over 53,000 beds worldwide.

	1983	1982	% Inc
Three Months Ended June 30:			
Operating revenues	\$974,289,000	\$876,127,000	11
Income before income taxes	103,100,000	68,021,000	52
Provision for income taxes	42,100,000	26,700,000	58
Net Income	61,000,000	41,321,000	48
Net income per common and common equivalent shares	\$.70	\$.56	25

	1983	1982	% Inc
Six Months Ended June 30:			
Operating revenues	\$1,982,558,000	\$1,750,492,000	13
Income before income taxes	217,910,000	146,413,000	49
Provision for income taxes	87,900,000	56,900,000	54
Net Income	130,010,000	89,513,000	45
Average number of common and common equivalent shares	87,354,000	79,668,000	10
Net income per common and common equivalent share	\$1.51	\$1.21	25

(Contact: Victor L. Campbell, Vice President-Corporate Communications, Hospital Corporation of America, P.O. Box 550, Nashville, TN 37203. Phone: (615) 327-9551.)

LASERTECHNICS, INC. **O**

Albuquerque, NM, July 5—Lasertechnics, Inc. (NASDAQ: LASX), an Albuquerque laser manufacturer, demonstrated two new lasers at its first shareholders’ meeting July 1, 1983. One of the new lasers, a krypton-fluoride excimer system, produces short but powerful pulses of ultraviolet light. Lasting only a few billionths of a second, each of the pulses delivers more than 30 million watts of power. Company president Eugene L. Watson says that the laser has been purchased by the Los Alamos National Laboratory, where it will be used to study atomic fusion.

The second new laser is being developed as an automatic marking system, which will have a number of applications in the electronics and packaging industries. In laser marking, the light beam vaporizes a thin layer of material on the surface of an object, leaving a clear, indelible mark. It can be used to write letters, numbers, symbols and codes on a wide variety of products. The laser marking process is many times faster than conventional ink devices.

(Contact: Eugene L. Watson of Lasertechnics, Inc. at 6007 Osuna Road, Albuquerque, NM 87109, or phone (505) 883-5353.)

STABELL RESOURCES INC. **V**

(SLR) Stabell Resources of Vancouver B.C. reported STABELL RESOURCES announced that they have retained the services of Kilborn Associates of Montreal, Canada having evaluated work completed to date and substantiated initial drill results on Vein #2 and research on Shafts #1 and #2.

Priority targets based on Kilborn evaluation and recommendation, will be a 75,000’ drill program, to test extension of the #4 zone from Western boundary (former gold producer).

er Sullivan Mines). The projection of this structure from North-West to South-East across Stabell property towards Shaft #2. This area within the Batholith, has never been tested North of Shaft #2.

Initial drilling on 1,200’ strike West of Stabell Lake in 60’ centres to vertical depth of 800-1,000ft and 600’ strike East of Stabell Lake, during winter months when lake surface is frozen. This #4 zone was the principal structure on the Sullivan Mines property which produced 1.1 million ounces of gold.

Should drill program outline this structure and prove favourable tonnage, phase II would commence immediately dewatering existing 3 compartment Shaft #2 (depth 1025’) and rehabilitation of underground workings for detail underground exploration program.

The Kilborn report also recommends concurrent surface drilling program to extend the orebody at depth at Shaft #1 original orebody Stabell vein #1 and further recommends depth drilling beyond 500’ vertical on vein #2. The present combined reserves of Shaft #1 and vein #2 could substantially be increased with this program. The probable exercise of all of class A&B, warrants by September 13, 1983, would raise another 980,000 for Stabell treasury. Management is very encouraged with work completed to date, and remains optimistic on potential of this strategically located property.

CAPITALIZATION

Stabell Resources Inc.	10,000,000 shares
Authorized	3,400,000 shares
Issued	
Listed	Vancouver Stock Exchange SLR
(Contact: Louis Roy, Sec. Treas., 1271-7th Street, Val d’Or, Qué., J9P 3S1 (819) 825-8628 or Bill Hallsley, 2055 Peel Street, Montreal, Qué., H3A 3B8 (514) 845-0834 or Daniel W. Small, Vancouver, (604) 669-8135.)	

UNITED TELECOMMUNICATIONS, INC. **N**

KANSAS CITY, MO., July 11—United Telecommunications, Inc. earnings per share for the first half of 1983 were \$1.34, up 12 percent from \$1.20 in the first six months of 1982. Chairman Paul H. Henson announced today. United’s consolidated revenues and sales increased 8 percent to \$1.3 billion in the period.

Earnings per share in the second quarter were 70 cents, compared to 56 cents in the three months ended June 30, 1982. For the 12 months ended June 30, 1983, earnings per share were \$2.63, compared to \$2.40 for the 12 months ended June 30, 1982.

Henson said effective expense control and stronger long distance telephone business provided the impetus for the second quarter earnings growth. Long distance calling volume was up 7.9 percent in the second quarter and 7.3 percent in the first six months.

“We are encouraged by an improving business climate in most of our markets,” Henson said. “We expect a good second half, but one in which our per share earnings growth will be less robust than in the first six months of 1983.” Henson noted that United Telecom’s telephone operations were particularly strong in the second half of 1982 and that the average number of common shares outstanding is up 7 percent from the previous year.

UNITED TELECOMMUNICATIONS, INC.

(Consolidated)
(Thousands of Dollars)

	6 Mos. Ended June 30 1983	1982
Revenues and sales:		
United Telephone System	\$ 979,037	\$ 886,739
United Communications Systems	230,020	228,444
United Telecom Computer Group	74,014	76,116
United Telecom Communications	11,208	10,545
Inter-Company Sales	(8,888)	(8,216)
	\$1,285,391	\$1,193,628
Net Income	\$ 113,694	\$ 96,296
Preferred stock dividends	2,315	2,491
Earnings applicable to common stock	\$ 111,379	\$ 93,805
Earnings per share:		
Assuming no dilution	\$1.34	\$1.20
Assuming full dilution	\$1.31	\$1.18
Average number of common shares	83,356,000	77,899,000

(Contact: Don Forsythe, United Telecommunications, Inc., P.O. Box 11315, Plaza Station, Kansas City, MO 64112. Phone: (913) 676-2242.)

N New York Stock Exchange

A American Stock Exchange

O Over-the-Counter

P Pacific Stock Exchange

AMETEK, Inc.

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Net income for the first half of 1983 was also a record for AMETEK at \$15.9 million, up more than 12 percent over the \$14.2 million profit in the first six months of 1982. Earnings figures, adjusted for the stock split, showed AMETEK earned 73 cents per share in the first half, versus 65 cents per share in the same period last year.

"While we're still seeing some soft spots, over-all AMETEK

is enjoying a steady recovery of new orders and business volume," company president Robert L. Noland reported. "Net income has been strong and should continue to improve due to a combination of increased productivity from new plants and more efficient production equipment, the continued benefits of a stringent cost cutting program begun in anticipation of last year's recession, and slightly more favorable tax rates," Noland said. "Record earnings in the current quarter continue a growth pattern begun in 1970," Noland added, "representing the 47th quarter in the past fifty in which Ametek's earnings have increased, when compared to the same three months of the previous year."

AMETEK'S Industrial Materials Group of aluminum and plastics business is showing the strongest upturn, according to Noland, and its Lamb Electric motor division also recorded a steady improvement in new orders, reflecting the recovery in construction, automotive and appliance markets. Noland said the company had not yet seen a recovery in the capital goods market and most of AMETEK'S Process Equipment group remained slow. "Certain parts of the Precision Instruments group—newly-introduced electronic instruments, and especially systems for water measurement and conservation—are doing quite well," Noland added.

AMETEK, INC.

3 Mos. Ended June 30	1983	1982
Sales	\$108,878,000	\$105,592,000
Net income	8,329,000	7,140,000
Earnings per share	.39*	.33*
Average shares outstanding	21,608,526*	21,800,026*

6 Mos. Ended June 30	1983	1982
Sales	\$213,516,000	\$216,250,000
Net income	15,890,000	14,152,000
Earnings per share	.73*	.65*
Average shares outstanding	21,789,804*	21,791,062*

In the past four consecutive quarters, AMETEK earned \$1.33* per share.

* Figures adjusted to reflect 2-shares for 1 stock split distributed to stockholders of record July 1 as a 100 percent stock dividend on July 15, 1983.

(Contact: Darrah E. Ribble Jr. of AMETEK, Inc. at Station Sq. Two, Paoli, PA 19301, or phone (215) 647-2121.)

BELL NATIONAL CORPORATION

O

SAN MATEO, CA., July 22—Bell National Corp. (NASDAQ: BELL), a savings and loan holding company engaged in the financing of commercial and residential properties, real estate development and other financial services, headquartered in San Mateo, Friday reported record earnings for the second quarter ended June 30 of \$5,809,000, or \$1 per primary share, or 99 cents per fully diluted share, on revenues of \$27,449,000.

This compares with a profit of \$27,000, or 2 cents per share, on revenues of \$12.1 million in the like year-ago quarter.

For the six months ended June 30 earnings were \$11,987,000, or \$2.07 per primary share, or \$2.04 per fully diluted share, on revenues of \$54,284,000 compared to a loss of \$1,803,000, or 54 cents per share loss, on revenues of \$20,995,000 for the similar six month period last year.

David L. Butler, President of Bell National Corp. and Chief Executive Officer of its principal subsidiary, Bell Savings and Loan Association, indicated that Bell's secondary spread, the difference between its cost of funds and its yield on earnings assets, was 2.06 percent on June 30 as compared to a negative 1.18 percent a year earlier.

From its equity participation lending activity, the company also estimated that it had a potential unrecognized benefit of \$33.2 million, of which \$12.8 million is attributable to loans recorded during the second quarter.

Through equity participation agreements Bell had obtained a portion of the equity in certain real estate projects upon which it had made mortgage loans.

Realization of income from these participation agreements is contingent upon the market value of each project at such time as the equity payment obligation to Bell matures.

Bell's estimate is based upon its valuation made when the project loan was approved and does not include future changes in market value.

(Contact: James L. Grauer, President, Bell National Corporation, 400 South El Camino Real, San Mateo, CA 94404. Phone: (415) 348-8200.)

COMPUTER TASK GROUP INC.

ANNOUNCES RECORD REVENUES AND ACQUISITION

BUFFALO, N.Y., July 18—Computer Task Group Inc. (NASDAQ: CTSG) a computer services company headquartered in Buffalo, Monday announced record revenues and increased earnings for the second quarter and first half 1983.

Quarterly revenues of \$13,011,000 represents a record level for CTG and an increase of 33 percent over 1982.

Earnings per share after adjusting for a 4-for-3 stock split (record date: May 13) were 19 cents, a 58 percent increase over last year's level of 12 cents.

Revenues for the first half of 1983 totaled \$24,198,000, an increase of 22 percent, while adjusted earnings were 35 cents, an increase of 13 percent.

The primary contributing factor for the second quarter improved earnings over last year was the strong performance of the company's Professional Services Division.

On July 14, CTG announced its acquisition of Automatic Business Systems Inc., a New York-based professional services company. Four months earlier, it had acquired Diversified Systems Inc., a firm based in St. Louis, Denver. The two acquisitions added about 100 people to CTG's staff, bringing its total employment level to more than 1,125.

Computer Task Group Inc., a Buffalo-based firm, offices in 20 major U.S. cities and estimated 1983 revenues of \$50 million, is one of the largest suppliers of computer related professional service in the United States.

Among its services are business programming; systems analysis and design; engineering scientific and product control programming; and consulting.

CTG's Professional Services Division derives 90 percent of its revenue from clients which are Fortune 500 service companies or Fortune 500 industrial companies.

(Contact: William P. Adamucci, Vice President-Financial, Computer Task Group Inc., 800 Delaware Ave., Buffalo, 14209. Phone: (716) 882-8000.)

DRESHER, INC.

CHICAGO, IL., JULY 28—Dresher, Inc. (NASDAQ: DRES) has reported higher sales and sharply increased earnings for the fiscal year ended June 30, 1983 as compared to the prior year.

The company also announced that its Board of Directors has approved plans for a two-for-one stock split increasing the outstanding shares to approximately 1 million. The split is subject to stockholder approval and an increase in the authorized common shares at the October 11th annual meeting and a final review by the Board of Directors of Dresher. Dresher holders will be asked to increase the authorized common to three million shares from one million. The announcement said the split is designed to increase trading activity and broaden the potential market for the company's stock. Dresher currently has approximately 600,000 shares outstanding.

In the announcement, A. Barry Merkin, Chairman and Chief Executive of Dresher, stated that "the outstanding results—achieved in the midst of a deep recession—exceeded our expectations." He added, "Most important, the fact that the pace of current incoming orders is strong. We expect fiscal 1984 results to be well ahead of last year."

In the fiscal year ended June 30, Dresher reported income of \$691,000 or \$1.18 a share, almost triple the prior year's net income of \$237,000 or 42¢ a share. For the year amounted to \$19.8 million, up from \$6.5 million a year ago.

In the fourth quarter ended June 30, Dresher's net in-

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30% to \$267,000 or 44¢ a share, as compared to \$5,000 or 36¢ a share in the year before. Sales for the quarter amounted to \$5.8 million, an increase of 20% from prior year sales of \$4.8 million.

Among the factors cited by Mr. Merkin for the sizeable earnings gains were a 14% improvement in productivity—as assured by sales per employee—and the increased effectiveness of the sales and marketing organization. Mr. Merkin attributed the favorable results to "Dresher's growing position of leadership in the industry, the expansion of its product line to include brass-accented white metal beds, new lines of brass beds as well as a broad range of brass accessories, and the growing consumer acceptance of quality brass beds and related products." Merkin added that the company's increased customer base now includes distribution through most major furniture retailers in the country.

Dresher is the country's leading maker of brass beds. It became a public company early in January 1983 via a distribution of its stock to the stockholders of its parent company, Standex International Corporation.

	First Quarter Ended June 30		Fiscal Year Ended June 30	
	1983	1982	1983	1982
Sales	\$5,794,000	\$4,830,000	\$19,239,000	\$18,198,000
Income	\$267,000	\$205,000	\$691,000	\$237,000
Earnings per share	\$4.44	\$3.36	\$1.18	\$0.42
Outstanding shares	620,050	559,203	584,972	559,203

Contact A. Barry Merkin, Chairman, Dresher, Inc., P.O. Box 8, Bedford Park, IL 60499. Phone: (312) 594-8900.)

HOSPITAL CORPORATION OF AMERICA

NASHVILLE, TN, July 18—Hospital Corporation of America announced continued steady growth for the second quarter and first six months of 1983. President and Chief Executive Officer Thomas F. Frist, Jr., M.D. reported strong performances in all areas of the company's operations during the quarter.

HCA's growth can be attributed primarily to continued expansion of the company's U.S. and international hospital network through construction, acquisition and management of hospitals for others," said Frist. "HCA's sustained emphasis on the efficient delivery of quality patient care is reflected in year-to-date 2.8 percentage point improvement in operating expenses as a percent of revenues," he added.

Frist reported that HCA's financial position was further improved in May 1983 when an \$80 million issue of dollar indebtedness was converted into equity. "HCA's 30 position of 52 per cent debt-to-48 per cent equity presents the strongest financial position in the company's history," Frist stated.

Revenues for the first six months totaled \$2,558,000, up 13 per cent from \$1,750,492,000 in the same period of 1982. Net income increased 45 per cent to \$130,010,000, compared with \$89,513,000 last year. Earnings per share increased 25 per cent to \$1.51, compared with \$1.21 in the first half of 1982. The 1982 per share figure is adjusted for the company's 4-for-3 stock distribution in January 1983.

In the second quarter, revenues totaled \$974,289,000, up 11 per cent from \$876,127,000 in the same period of 1982. Net income increased 48 per cent to \$61,000,000, compared with \$41,321,000 in the second quarter of 1982. Earnings per share increased 25 per cent to \$0.70, compared with \$0.56 last year (split adjusted).

During the second quarter, 10 hospital construction projects were completed, including a 150-bed hospital in Greenville, N.C., a 140-bed facility in Lafayette, LA., a 206-hospital in Corsicana, Texas, a 200-bed hospital in Houston, Texas and a 125-bed psychiatric facility in Hampton, Virginia. Texas and Virginia facilities replaced older hospitals owned by HCA. An additional 37 hospital projects were under construction at June 30, 1983.

In June, HCA acquired two hospitals in Wharton, Texas which were previously owned by a not-for-profit foundation. Plans to consolidate the two facilities and build a new bed replacement hospital. In addition, HCA acquired a spinal cord rehabilitation center in Florida during the quarter.

Eleven new management contracts were signed during the second quarter comprising a total of 1,400 beds. The new managed facilities added during the quarter are located in Alabama, Georgia, Michigan, Minnesota, New York, North Carolina (3), Pennsylvania, Tennessee and West Virginia. At the end of the quarter, 155 hospitals were managed for other owners. Two additional contracts became effective July 1, in Savannah and Folkston, Georgia.

In June, HCA and Vanderbilt University Medical Center announced an agreement in principle to build and operate an 88-bed child and adolescent psychiatric hospital in Nashville. This project represents the first joint venture between HCA and a university medical center. HCA's psychiatric subsidiary is currently the leading owner and operator of psychiatric hospitals in the United States with 24 facilities and approximately 3,000 beds.

Internationally, the company's operations were expanded during the quarter with the acquisition of an additional hospital in Australia and completion of constructions of hospitals in England and in Brazil. HCA's international subsidiary now own 11 hospitals in Australia, six in England and six in Brazil. In total, HCA subsidiaries own or manage 31 international hospital projects in seven countries.

HCA is a publicly owned international health care company committed to the delivery of quality patient care at a reasonable cost. HCA and its affiliates now own or manage for others more than 370 hospitals with over 53,000 beds worldwide.

	1983	1982	% Inc.
Three Months Ended June 30:			
Operating revenues	\$974,289,000	\$876,127,000	11
Income before income taxes	103,100,000	68,021,000	52
Provision for income taxes	42,100,000	26,700,000	58
Net Income	61,000,000	41,321,000	48
Net income per common and common equivalent shares	\$0.70	\$0.56	25

	1983	1982	% Inc.
Six Months Ended June 30:			
Operating revenues	\$1,982,558,000	\$1,750,492,000	13
Income before income taxes	217,910,000	146,413,000	49
Provision for income taxes	87,900,000	56,900,000	54
Net Income	130,010,000	89,513,000	45
Average number of common and common equivalent shares	87,354,000	79,668,000	10
Net income per common and common equivalent share	\$1.51	\$1.21	25

(Contact: Victor L. Campbell, Vice President-Corporate Communications, Hospital Corporation of America, P.O. Box 550, Nashville, TN 37203. Phone: (615) 327-9551.)

LASERTECHNICS, INC.

Albuquerque, NM, July 5—Lasertechnics, Inc. (NASDAQ: LASX), an Albuquerque laser manufacturer, demonstrated two new lasers at its first shareholders' meeting July 1, 1983. One of the new lasers, a krypton-fluoride excimer system, produces short but powerful pulses of ultraviolet light. Lasting only a few billionths of a second, each of the pulses delivers more than 30 million watts of power. Company president Eugene L. Watson says that the laser has been purchased by the Los Alamos National Laboratory, where it will be used to study atomic fusion.

The second new laser is being developed as an automatic marking system, which will have a number of applications in the electronics and packaging industries. In laser marking, the light beam vaporizes a thin layer of material on the surface of an object, leaving a clear, indelible mark. It can be used to write letters, numbers, symbols and codes on a wide variety of products. The laser marking process is many times faster than conventional ink devices.

(Contact: Eugene L. Watson of Lasertechnics, Inc. at 6007 Osuna Road, Albuquerque, NM 87109, or phone (505) 883-5353.)

STABELL RESOURCES INC.

(SLR) Stabell Resources of Vancouver B.C. reported STABELL RESOURCES announced that they have retained the services of Kilborn Associates of Montreal, Canada having evaluated work completed to date and substantiated initial drill results on Vein #2 and research on Shafts #1 and #2.

Priority targets based on Kilborn evaluation and recommendation, will be a 75,000' drill program, to test extension of the #4 zone from Western boundary (former gold produc-

er Sullivan Mines). The projection of this structure from North-West to South-East across Stabell property towards Shaft #2. This area within the Batholith, has never been tested North of Shaft #2.

Initial drilling on 1,200' strike West of Stabell Lake in 60' centres to vertical depth of 800-1,000ft and 600' strike East of Stabell Lake, during winter months when lake surface is frozen. This #4 zone was the principal structure on the Sullivan Mines property which produced 1.1 million ounces of gold.

Should drill program outline this structure and prove favourable tonnage, phase II would commence immediately dewatering existing 3 compartment Shaft #2 (depth 1025') and rehabilitation of underground workings for detail underground exploration program.

The Kilborn report also recommends concurrent surface drilling program to extend the orebody at depth at Shaft #1 original orebody Stabell vein #1 and further recommends depth drilling beyond 500' vertical on vein #2. The present combined reserves of Shaft #1 and vein #2 could substantially be increased with this program. The probable exercise of all of class A&B, warrants by September 13, 1983, would raise another 980,000 for Stabell treasury. Management is very encouraged with work completed to date, and remains optimistic on potential of this strategically located property.

CAPITALIZATION

Stabell Resources Inc.	10,000,000 shares
Authorized	3,400,000 shares
Issued	
Listed	Vancouver Stock Exchange SLR
(Contact Louis Roy, Sec. Treas., 1271-7th Street, Val d'Or, Qué., J9P 3S1 (819) 825-8628 or Bill Hallsley, 2055 Peel Street, Montreal, Que., H3A 3B8 (514) 845-0834 or Daniel W. Small, Vancouver, (604) 669-8135.)	

UNITED TELECOMMUNICATIONS, INC.

KANSAS CITY, MO., July 11—United Telecommunications, Inc. earnings per share for the first half of 1983 were \$1.34, up 12 percent from \$1.20 in the first six months of 1982. Chairman Paul H. Henson announced today. United's consolidated revenues and sales increased 8 percent to \$1.3 billion in the period.

Earnings per share in the second quarter were 70 cents, compared to 56 cents in the three months ended June 30, 1982. For the 12 months ended June 30, 1983, earnings per share were \$2.63, compared to \$2.40 for the 12 months ended June 30, 1982.

Henson said effective expense control and stronger long distance telephone business provided the impetus for the second quarter earnings growth. Long distance calling volume was up 7.9 percent in the second quarter and 7.3 percent in the first six months.

"We are encouraged by an improving business climate in most of our markets," Henson said. "We expect a good second half, but one in which our per share earnings growth will be less robust than in the first six months of 1983." Henson noted that United Telecom's telephone operations were particularly strong in the second half of 1982 and that the average number of common shares outstanding is up 7 percent from the previous year.

UNITED TELECOMMUNICATIONS, INC.

(Consolidated)
(Thousands of Dollars)

	6 Mos. Ended June 30 1983	1982
Revenues and sales:		
United Telephone System	\$ 979,037	\$ 886,739
United Communications Systems	230,020	228,444
United Telecom Computer Group	74,014	76,116
United Telecom Communications	11,208	10,545
Inter-Company Sales	(8,888)	(8,216)
	\$1,285,391	\$1,193,628
Net Income	\$ 113,694	\$ 96,296
Preferred stock dividends	2,315	2,491
Earnings applicable to common stock	\$ 111,379	\$ 93,805
Earnings per share:		
Assuming no dilution	\$1.34	\$1.20
Assuming full dilution	\$1.31	\$1.18
Average number of common shares	83,356,000	77,899,000

(Contact: Don Forsythe, United Telecommunications, Inc., P.O. Box 11315, Plaza Station, Kansas City, MO 64112. Phone: (913) 676-3343.)

DIVIDENDS EACH YEAR SINCE 1912

The Board of Directors of ENSERCH Corporation on July 21, 1983, declared a regular quarterly dividend of 40 cents per share of common stock, payable September 6, 1983, to shareholders of record August 19, 1983.

For additional information, please write to Benjamin A. Brown, Vice President, Financial Relations, Dept. C, ENSERCH Center, Box 999, Dallas, Texas 75221.

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Stock Trends

Continued caution still is recommended until the stock market finishes its shake-out, but next year the DJI could be 1600.

DOING NUMBERS ON 1984

By Ann C. Brown



Q2½. Hard to believe it, but here we are smack dab in the middle of the third quarter. Not a minute too soon to start looking ahead to next year and engaging in a little educated guessing on what could be in store for stockholders. In the present climate of relative peace and reasonable prosperity, examine, if you will, a few facts and figures that could affect your finances over the next dozen months or more.

7°F. The probable temperature the day the first hamlet votes in the New Hampshire primary. If the economic recovery continues apace and Mr. Reagan's good health holds, he would appear to be unbeatable. And, since the stock market hates change almost as much as it hates uncertainty, the reelection of the President should be better for investors than the election of anyone else, Democrat or Republican.

\$100,000,000,000-plus. The estimated amount of U.S. bank loans to foreign governments and corporations. Fully \$80 billion is on the "endangered species" list—\$69 billion to the Big Five Latin American countries alone. Citicorp, Chase Manhattan and other liberal lenders are hoping they don't have to write this promissory paper down to zero. Chances are, they won't have to.

Ann C. Brown is chief executive officer of the equity advisory and portfolio management firm of A.C. Brown & Associates.

Washington has shown a strong preference for backing the banks over landing the troops in countries threatened with Communism.

9%-8%-4%. What the Administration dreams will be 1) the prime rate; 2) the unemployment rate; and 3) the inflation rate come Nov. 6, 1984. Each component of this series could be lower than it is now, but *that* low? Not likely. The unemployment numbers are certain to dominate the political debates, but it's the inflation rate that will control securities prices.

6' 7". Paul Volcker, now confirmed for a second term as Chairman of the Federal Reserve Board, will make his towering presence felt as he and his colleagues struggle to maintain a middle-of-the-road monetary policy. Too much money, and the recovery suffers inflation burnout; too little money, and it crashes from an interest rate high.

1, 2, 3. The Ms that measure the money supply used by the Fed to determine when to tighten up and lighten up. Recent moves to change the parameters when the results exceed the guidelines could start a dangerous precedent.

\$450. Probably the average price of gold in 1984, providing no one bombs Johannesburg or Jidda. Inflation should remain low enough and interest rates high enough to make the carrying costs of hoarding precious metals unrewarding. Joining gold, silver and platinum as potential investment nonperformers are diamonds, stamps, Chinese ceramics, antiques and most other collectibles—and most real estate.

1465. Best single-point estimate of the DJI high in 1984. Calculated by predicting the inflation rate (5.5%) and adding the "cost of money" (4%)—the return expected in the absence of inflation, plus trans-



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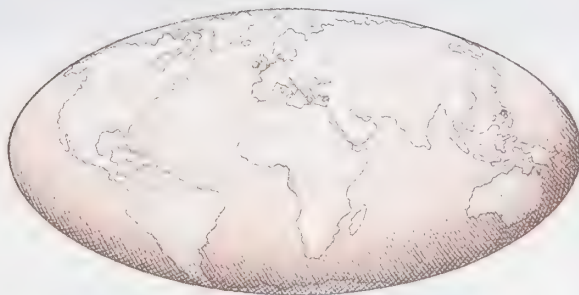
MONEY & INVESTMENTS

action costs. Divide into 100 for the multiplier (10.5%). Multiply by the estimated 1984 earnings for the 30 Dow stocks (\$139.50). If the earnings come closer to \$145 and the inflation rate averages 5%, it's conceivable that the DJI could reach 1600 next year.

Okay, you say. If it's likely the DJI could be 250 to 350 points higher next year than it is now, what's recommended? Continued caution—until the market finishes the shakeout, although some very attractive stocks already have been hit, and hit hard. Take *Coleco* (36), for example. A couple of months ago the stock exploded to 65, a spectacular 1,000% appreciation from its last summer's low of 6 $\frac{3}{4}$ —too good to be true and much too good to last. Since the correction, *Coleco* sells at 6 times next year's estimated earnings of \$5.50 per share. The stock looks like a buy if you can handle the heavy risk that earnings might not make the estimate.

Delta Air Lines (31) has been in a nosedive ever since it hit 51. The reason for this free-fall is that the company will show an ugly deficit for fiscal 1983 (and a dividend cut), back to back with disappointing earnings in 1982. However, with new cost-efficient equipment now in operation and more coming on stream, *Delta* could report a sharp earnings rebound—if loan factors continue to improve, fuel bills stay stable and interest rates don't take off. *Delta* management is considered excellent, and should it manage to produce the fiscal 1984 per-share earnings of \$4.50 to \$5 and \$8 for 1985—current estimates—its reputation will be well deserved.

Walt Disney (66) is down nearly 25% from its high of 84. Earnings estimates have been cut because of the continuing concern over the strength of the dollar and the adverse effect it will have on the company's foreign earnings. Also worrisome are the costs surrounding the new *Disney Channel* cable-TV operation and a shortfall in attendance at Tokyo Disneyland. For the year ending this September, earnings should be in the area of \$3.30 to \$3.50 per share. In fiscal 1984 earnings are anticipated to be \$4.95 to \$5.25, making *Disney* interesting at current prices and, below 60, downright fascinating. ■



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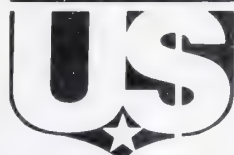
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Changing residences is never fun. But planning can remove some of the pain from personal real estate transactions.

MOVING ON

By Stephen E. Roulac



Psychologists tell us that buying and selling a house is among the most stressful of all life experiences. This certainly was true for Lorraine, a friend who recently sold her condominium.

She decided to move because the undeveloped tract across the street from her home, which she long had considered her private preserve, was being graded for a new housing project. A deteriorating neighborhood also forced her to pay private school tuition for her son.

On a Sunday drive, Lorraine saw an open house at another development. She discovered that the property, a condominium listed exclusively through a broker, was on the market because the woman who owned it needed to raise some quick cash. The location offered an easier commute, more space and a strong public school system.

Lorraine faced several decisions. Should she buy the condominium? How much should she pay? How should she finance the deal? Should she try to sell her unit without a broker? And, perhaps more important, how should she coordinate the timing of all these transactions?

Stephen E. Roulac is chairman of National Management Advisory Services, a division of Kenneth Leventhal & Co., a national CPA and consulting firm specializing in real estate and financial services.

As a bit of friendly advice, I suggested the following strategy. First, arrange a home equity loan. This provides the cash-in-hand to negotiate a purchase effectively. A number of financing programs, featuring 15-year and even 30-year amortization schedules, are available.

Having this financing in place may also help sell your present residence. Many of these loans are assumable, a plus for potential purchasers. Under the best of circumstances, arranging a mortgage is a less-than-pleasant experience, and today processing can take 30 days, 45 days or longer. Lenders let people go when the housing market was in the doldrums, and business has picked up faster than new hiring. Every broker has his own horror story of deals lost because of slow approvals.

As for how much to pay, most real estate buyers look too closely at the price and not enough at underlying economics. Start with the premise that the majority of today's asking prices are unrealistic. Knock off maybe 25% to get in the ball park. Don't forget that borrowing funds from the seller at below market rates can reduce the real costs dramatically.

Changing residences also changes things like mortgage debt service, property taxes, telephone, utilities, transportation, schooling, even entertainment. Consider both the absolute dollars and the tax consequences. Property taxes and interest, for example, are deductible; private school tuition and other housing-determined expenses are not. What this means is that you can, in fact, come out ahead by paying more for property, where the increased price is reflected in interest on a higher mortgage, if you can save on nondeductible expendi-

tures, such as private school tuition.

What about selling? Setting the price is a key tactical decision. The best guidance here is to look at what the competition is doing. No matter how valuable your property may be, if others are willing to sell for a lot less, you cannot ignore them—at least not until that inventory clears the market. However, if the competition happens to be very inflated in its own pricing assessments, you can come in lower and still have lots of bargaining room.

Selling a residence without a broker is impractical for most people. During the workday, no one is available to answer the phones. If you do manage to get an offer, you may be at a loss as to how to handle the paperwork, do the negotiating, close the escrow. While some self-help books are available, a good broker can add value to a transaction—provided you use him or her wisely.

Make it clear initially that you will work exclusively with one broker, that you are very serious and a deal will ensue. That way you won't get treated like a look-see prospect. As for a purchase, proceed with caution before dealing through the listing broker. After all, he represents the seller. Better to deal through the broker you are using to sell your property. He will receive a 3% commission—splitting the 6% total with the seller's broker. If you found the property on your own, he should be willing to give most of this money back to you.

Buyers and sellers always want to reduce the brokers' commissions. But generally, it is a bad idea to discuss this at the beginning of a relationship. Better to propose a commission reduction when the deal is almost final and just a few thousand dollars separate the parties. That's when your leverage is greatest.

Even after all the analysis and negotiating, however, remember that personal real estate transactions involve more than dollars and cents. Intuitive and qualitative measures of value can be just as important. Do your homework and understand all the economic and tax issues. But then don't be afraid to buy something just because you like it. ■



You don't have to be a shrewd investor to understand why financial advertisers purchased more ad pages in The New Yorker in the last three years than in any other magazine not devoted to business or financial concerns. Close analysis suggests that such bullish devotion is a matter of good economics; The New Yorker is one investment that promises high yields. Yes, The New Yorker.

THE NEW YORKER

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who is somebody in business
who does not read
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Flashbacks

"The more things change. . ."
Items from past issues of FORBES

Sixty years ago in FORBES

(From the issue of September 1, 1923)

"Herbert Hoover has striven heroically to help the business world since he became head of the Department of Commerce. He has made a special point of collecting and distributing useful facts and figures, thus helping businessmen to base judgments, not on guesswork, but on the fullest information obtainable. All enlightened business leaders, realizing the value and desirability of such work, have given Secretary Hoover and his department every cooperation. But, though it may be hard to believe, there are still a few men at the head of important enterprises who prefer darkness to light, secrecy to frankness.

"One such offender is William M. Wood, the old-school autocrat who still heads the American Woolen Co., called in the trade the Woolen Trust. Mr. Hoover's department has sought to keep the country posted on the amount of wool consumed month by month, just as such information is furnished in regard to cotton. But though the great majority of manufacturers have, naturally, cooperated with the government, do you think for a moment that Wood has? No. He takes the attitude that what the Woolen Trust does is none of the government's and none of the public's business. He refuses, the *New York Times* announces, to give the authorities the information they desire in the public interest."

"Traffic congestion on the most frequented streets and roads in or near all big cities in America may prove the deciding factor to get brakes on all four wheels adopted as standard for 1924 cars and ever after. So says the managing editor of this magazine, considering himself the typical American motorist who always selects the most popular and crowded route between two points, always drives as fast as possible, and always keeps his distance in the jam by means of brakes and bumpers."

Fifty years ago

(September 1, 1933)

"Although the effects of the codes are still obscure, the National Recovery Administration can claim full credit for one job that proved exceedingly

FORBES



**What of Labor? Profits?
Under the NRA?**

By R. C. FORBES

The Blue Eagle was the symbol of the National Recovery Act, which starting in mid-1933 set wage, hour and trade practice standards across U.S. industry

constructive—its successful mediation of labor disputes pending public hearings on the codes for the affected industries. The first feather in NRA's cap was settlement of the soft coal strike in the Pennsylvania fields; then came additional strikes in Pennsylvania—in anthracite mines and in hosiery and shirt factories; then the New York City dress strike, which threatened developments nearly as serious as those in the coal fields. All these disputes were settled peacefully, and NRA's National Labor Board now is working on labor troubles from Los Angeles to Philadelphia and from Chicago to Birmingham."

"One interesting development to be watched is the demand for cartons holding only 6 bottles. This was apparently first introduced to the trade by Pabst and other middle western brewers, and seems to be popular with the consumer because it is so much easier to buy or to carry a carton of 6 than one of 12 or 24. Eastern brewers have not up till now given much attention to the small carton."

"In the past two years, Florida orange growers have marketed large quantities of fruit in open-mesh cotton bags whose interstices are wide enough to reveal clearly the half-dozen or so oranges in each sack. Their enterprise has been rewarded by the enthusiastic

Edited by Dero A. Saunders

approval of consumers. Oranges packed in cotton bags attracted attention; they were easy for consumers to handle; they could be displayed effectively; and the bags, once empty, could be reused in a variety of household tasks."

Twenty-five years ago

(September 1, 1958)

"However the stock market exits from 1958 four months hence—like a snorting bull or a growling bear—it will almost certainly be a mighty winded animal. That, at least, was the outlook when, at press time last month, the New York Stock Exchange closed its books on still another day of brisk volume, in which more than 3 million shares were traded. At that pace, we reckoned, 1958 might prove to be the biggest volume year since the wild trading spree of 1955, when 649,602,291 shares traded hands. . . . As of late August, the Big Board had recorded 26 days this year in which trading volume had exceeded 3 million shares, and 4 of those had actually seen more than 4 million shares bought and sold. By itself, an imposing record."

"Within the next few months there will go on sale in Manhattan the first models of a compact, four-cylinder, four-passenger car called the Datsun. The Datsun is made in Japan. Everything in it is Japanese, including the design and engineering. In terms of the 300,000 or so foreign-made cars which Americans will drive out of the showrooms this year, the Datsun is not likely to burn up the road in sales. But symbolically the shiny little motor car dramatizes the distance Japan has sped along the road of industrialization. . . .

"Today, as the Datsun shows, Japan is on a level where it can strive to compete with the precision, mass-production products of Detroit, Coventry, Turin and Wolfsburg. Even more revealing, however, is the Datsun's sales pitch. The car is priced to sell for several hundred dollars more than France's Renault or Germany's Volkswagen. Its sponsors are not counting on low price to make their sales; they plan to emphasize instead *craftsmanship*—hardly the quality for which cheap Japanese goods were famous—or notorious—before World War II."

—Malcolm S. Forbes

The rung of a ladder was never meant to rest upon, but only to hold a man's foot long enough to enable him to put the other somewhat higher.

THOMAS HUXLEY

Men do their hardest work at the bottom of the ladder, not at the top.

WILLIAM FEATHER

Security is being an uncommon person. Security is never outside a person. If it isn't within, it isn't anywhere.

EARL NIGHTINGALE

Since habits become power, make them work for you and not against you.

E. STANLEY JONES

This world is given as the prize for the men in earnest.

FREDERICK ROBERTSON

A Text . . .

But let him ask in faith, nothing wavering. For he that wavereth is like a wave of the sea driven with the wind and tossed.

JAMES 1:6

Sent in by Gail Howard, New York, N.Y. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Success to the strongest, who are always, at last, the wisest and best.

RALPH WALDO EMERSON

There is no substitute for going forward.

ARNOLD GLASOW

Thoughts

on the Business of Life

Diamonds are chunks of coal that stuck to their job. Most people show more persistency in their first 12 months than they show later in 12 years. did they not, they never would have learned to walk! There is no market for rolling stones. "Tenacity is the only key that will open the door of success," declared Daniel Guggenheim Without stick-to-itiveness, no man is likely to climb to the top of the ladder and stick.

B.C. FORBES

Nothing is achieved before it be thoroughly attempted.

PHILIP SIDNEY

Nothing is useless to the man of sense; he turns everything to account.

CHARLES FONTAINE

Not everything that is more difficult is more meritorious.

SAINT THOMAS AQUINAS

The block of granite which was an obstacle in the pathway of the weak becomes a stepping-stone to the strong.

THOMAS CARLYLE

Don't take the will for the deed; get the deed.

LEWIS MUMFORD

More than 3,000 "Thoughts," indexed by author and subject, are available in a 574-page book at \$13.95. Send check and order to: Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Add appropriate sales tax on New York State orders.

If a man has any brains at all, let him hold on to his calling, and in the grand sweep of things, his turn will come at last.

WILLIAM McCUNE

When a stupid man is doing something he is ashamed of, he always declares it is his duty.

GEORGE BERNARD SHAW

Not everything that is faced can be changed at once, but nothing can be changed until it is faced.

JAMES BALDWIN

It is a true miracle when a man finally sees himself as his only opposition.

VERNON HOWARD

The weakest among us has a gift, however seemingly trivial, which is peculiar to him, and which worthily used, will be a gift to his race forever.

JOHN RUSKIN

Even a boring occupation can be interesting when your goal is to do it better.

ROBERT HALF

Few things are brought to a successful issue by impetuous desire, but most by calm and prudent forethought.

THUCYDIDES

Haste does not belong to genius. That has the patience which seems to have been assigned by nature to all forms of the creative faculty. For the gods, and for genius, time is not.

S. WEIR MITCHELL

A driving ambition is of little use if you're on the wrong road.

FRANK TYGER



For all the commitments you make

One of the most important commitments we make is to the growth and development of our children. Commitment is the key to making our family, home and business what we want them to be. And commit-

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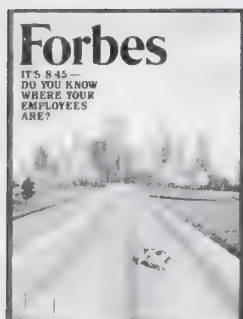
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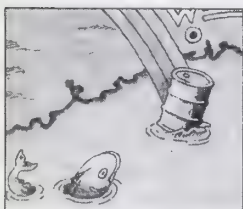
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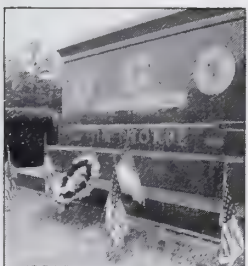
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Illustrations:

42, 49, Phil Huling; 43, 118, 162, 226, Chas. B. Slackman; 164, 216, Tim Lewis; 214, 228, Peter Kuper

Cover Illustration: Mark Hess

Forbes (ISSN0015 6914) is published biweekly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription \$36 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011. Copyright © 1983 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office

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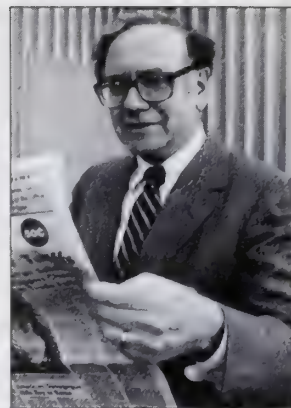
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Arithmetic lesson

Warren Buffett, investor, publisher, businessman and connoisseur of journalism, points out a not inconsequential error in this column (Aug. 15): "How \$675 became \$7 million." Basing the statement upon some figures supplied by R.M. Smythe & Co., we said that a single \$675 share of the old Standard Oil Trust purchased in 1911, the year of the Trust's breakup, would be worth nearly \$7 million in 1983, provided the purchaser had hung on to all the paper received in the divvying up of assets. Those numbers didn't look right to Buffett. Boy, was he right! We were off by a factor of 100. It turns out that you would have needed 100 shares of the old Standard Oil Trust, \$67,500 worth—not one single share, \$675 worth—to end up with about \$7 million worth of equities today; somebody here sloppily misplaced a pair of zeros. Notice how Buffett sensed right away, almost instinctively, that an appreciation of 10,000-fold was beyond the range of probability. Now you know why Buffett is probably the smartest investor in the country: His well-trained mind sees patterns, proportions, meanings where most of us see only numbers.



Warren Buffett

Eliminating the greedy middleman

In a sense, the cooperative movement in the U.S. was founded on a misconception. Because wheat was cheap and bread relatively dear, the farmers assumed somebody was ripping them off. Who? The notorious middleman, of course. Why not form cooperatives and eliminate that greedy fellow? The farmers' cooperative was born. Yet wheat remains relatively cheap and bread dear. Why? Because the middleman was not a greedy capitalist or bloated merchant. He was the truck driver who delivered the bread. The papermaker who produced the packaging. The developer of the shopping center where the bread was sold. He was the relief client supported by taxes levied on the stores that sold the bread. He was, in short, the whole chain of complexity that makes the modern world as comfortable and convenient, as safe and humane as it is. Be all this as it may, farmers' cooperatives still exist and market nearly one-third of all the food Americans eat. On page 92, James Cook reports on one of the biggest farm coops of them all, Land O'Lakes. Is it doing well? Fairly well. Has it eliminated the so-called middleman? Of course not.

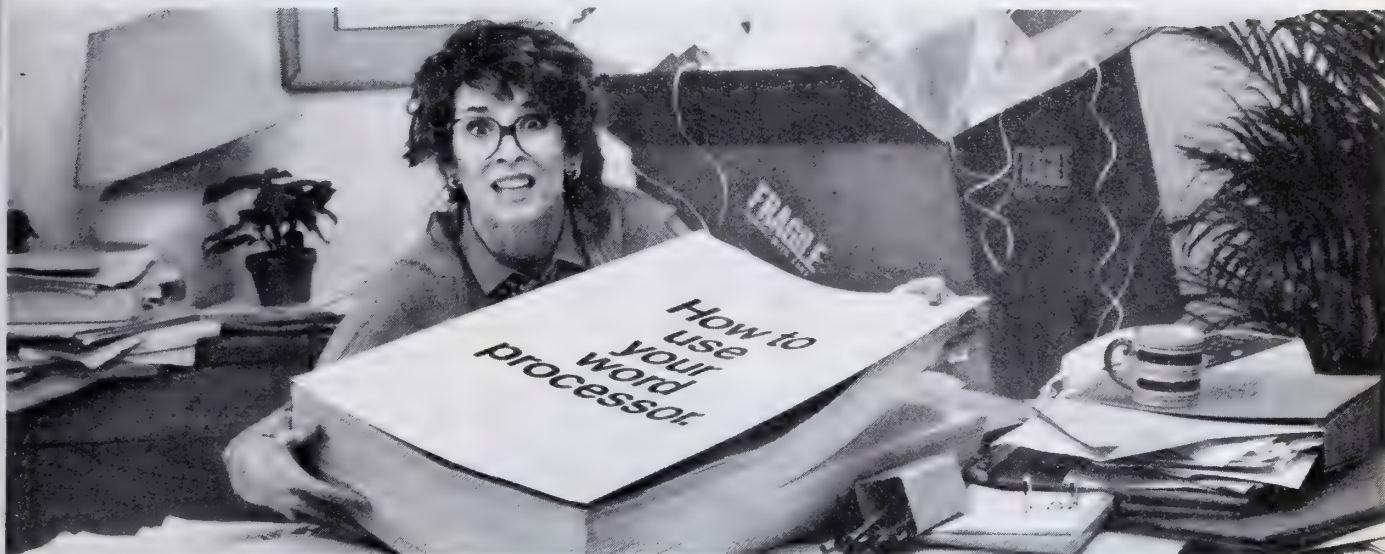
Vision of the future

The computer is changing the workaday and playday worlds as drastically as the automobile did before it, creating new wants, new occupations, new ways of doing things, obsoleting much that is traditional. Will it all turn out the way suggested on our cover? Could be. Kathleen Wiegner, a veteran West Coast Associate Editor for FORBES, was a natural for writing the cover story, "A job with a view." In her spare time Wiegner writes poetry and experiments with her home computer, just the right combination of art and technology to produce a vivid vision of the future. Story starts on page 143.

James W. Michaels
Editor

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WF-93

The great smoke debate

Should smoking be allowed at work? William L. Weis, an accounting professor at Seattle University and a non-smoker, says no. Smokers cost their employers at least \$4,600 a year in absences and added fire, health, disability and term life insurance premiums, he says. They have more accidents and illnesses, are absent 50% more than nonsmokers and have over twice their mortality rate, he claims, adding that firms that prohibit smoking have saved thousands per worker per year. Smoking also creates a morale problem, he says. Surveys have

total fraud losses of \$46 million last year, up from \$26 million in 1981, with counterfeiting up 660%, to \$9.5 million. Both now plan or use fine-line printing, holograms and the like to counterfeit-proof their cards, warn customers to guard numbers like cash and are lobbying for a federal law against bank card counterfeiting. (American Express has used hard-to-duplicate plastic since 1958 and says its losses are relatively small.) But H. Spencer Nilson, publisher of *The Nilson Report*, a credit card newsletter, says the campaign is eyewash. Bank card issuers lost only \$106 million from fraud in the U.S. last year, he

the work force in France, 8% to 12% in West Germany, 13% to 14% in Sweden, from 10% to 35% in Italy. In the U.S., the ILO figures, more than 25 million workers, or close to 25% of the work force, are drawing untaxed underground income. The amounts earned by this clandestine labor force are even more mysterious, but the ILO estimates that in several Western European countries and the U.S. the total adds up to 5% or more of their gross national product.

Executives in wonderland

Like Alice, the American business executive has to keep running hard just to stay in one place. A compensation study by the Hay Group in Philadelphia found that the head of a major division in a big industrial company—Hay studied 819 of them in 485 firms—earned \$129,500 in 1973. This year the average was up to \$287,100. Buying power, however, was another story. The 1973 figure for this, using standard tax assumptions, was \$81,710. This year, factoring in taxes and inflation, the typical executive's buying power was \$83,900—a gain of just 3.3%. Most other managers and professionals weren't even keeping up with Alice. A \$37,800 manager in 1973 might be making \$84,000 today, but his buying power is off by 7.3%. Staff professionals went from \$15,500 to \$33,800 during the past decade, but their buying power dropped 8.5%.

Suffer the little children

If you think you have had a bad time with the IRS, consider the large family. Eugene Steuerle, a Treasury Department tax analyst, says tax policy has discriminated against it since the late 1940s. Personal tax exemptions for each dependent have risen only from \$600 to \$1,000 since 1948, much less than family income, he says. "The current dependency exemption is inadequate by almost any standard," Steuerle argues in a new book on taxing the family published by the conservative American Enterprise Institute. If exemptions had kept pace with per capita income for the past 35 years, he says, they would amount to \$5,600 for each dependent by 1984. Instead, Steuerle says, a couple with two children has had about a 43% increase in its average tax rate since 1960, while a couple with four dependents has had a 223% increase. Meanwhile, single and married people with



Smoker versus nonsmoker
Does the vice have a price?

shown 70% to 80% of workers want smoking banned or limited to separate areas, Weis says. For the defense, Lewis Solmon, an economist and associate dean at UCLA's graduate school of education and a smoker, says smoking doesn't cause work loss. For example, he notes, blue-collar workers smoke more and are absent more than white-collar workers, but "if no one smoked, there would still be more absences at blue-collar jobs." More important, says Solmon, if smokers were eliminated, some excellent workers would be lost.

The card sharks

If you listen to the bank card people, fraud is on the rise. Visa says its 14,900 member banks and thrifts last year lost \$100 million worldwide from theft, counterfeiting, lost cards, etc. Counterfeiting fraud rose faster, claims, up from \$750,000 in 1981 to \$15.9 million. MasterCard reported

says, about the proportion of losses from white-collar crime at retail stores. So why the hoorah? Says Nilson, "Visa is losing out to automated teller networks." He says it wants a worldwide system and is pushing electronic authorization for security to get it. He says MasterCard jumped in with better cards to defend itself. Nilson predicts both will lose out to big retailers and banks, with plans for their own electronic networks.

The moonlight armies

The shadowy outlines of the underground economy can never be drawn exactly, but the United Nations' International Labor Organization has made a stab. Overall, a new ILO study says, the army of moonlighters in some of the principal industrial countries represents nearly 10% of the working population and in some cases exceeds the number of unemployed. The estimates vary from 3% to 5% of

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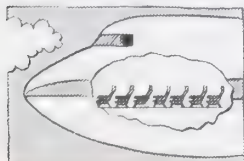
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Trends

no children are paying about the same rates as they did in 1960, he reports. Steuerle (who has two children) concedes that people with dependents "accept certain burdens" but challenges the idea that having kids is taxable "consumption."

Quote, unquote

Howard Goldberg, a woman's coat and suit marketer, commenting on the power failure that blacked out

ample, are backing the plan, and so are congressmen of every political stripe, on both sides of the aisle. The idea would let nonworking spouses, male or female, deposit up to \$2,000 a year, or a maximum of \$4,000 per couple, the same as working pairs. (A nonworking spouse is now limited to \$250.) Mrs. Schlafly told the Senate Finance Committee the present situation leads "women to abandon the role of career homemaker. . . ." NOW argues that women working at home are as valuable as their deskbound sisters. President Reagan has no stated position on the bill, but it is hoped

used on gemstones like rubies and emeralds, was developed by George Kaplan, son of the firm's founder (who is still around, at age 100). It will be sold to jewel registry services and jewelers, but the identification service is limited to stones of 20 points (a fifth of a carat) or more.

What alien landlords?

If well-heeled foreigners are buying up choice U.S. farmland—a constant fear that no one ever seems to prove—what kind of profit harvest have they reaped? Not much, according to the Federal Reserve Bank of Chicago, in the heart of the heartland. Farm prices peaked in 1981 and, by the first quarter of this year, had dropped 14%. Things did improve in 1983, when a small rise in the first quarter was followed by another 1.6% increase in the second, according to the bank's canvass of close to 600 agricultural bankers in its five-state district. Despite that, however, farmland values were still 5% below that of a year earlier. (As for the foreign-buyer myth, the Commerce Department says that only about 1% of American farmland is held by overseas owners.)

Uncle Sam, housekeeper

One split trash bag can give a householder apoplexy, so how about a million at a time? That's what happened to Uncle Sam, and the Justice Department is suing Western Addition Manpower Services of San Francisco and its president. The government charges they faked 35 quality reports on \$3,189,789 worth of garbage bags.



Trash bags in New York
Bad enough one, but millions?

(The company pleaded guilty to two false-reporting counts last fall.) More than 50% of the bags shipped to 1,000 government facilities, it's charged, were below minimum specifications and kept splitting. The government wants \$1.6 million in damages and another \$1.6 million under the False Claims Act.



The garment district blackout

New York City's \$17 billion garment industry for three days during a peak summer selling period: "This is the worst thing that's happened since the maxiskirt."

The imagemakers' image

Madison Avenue's huckster image has been a target for critics for so long that admen have apparently become indifferent to the whole thing. Peterson Blyth Cato Associates, a marketing and package-design firm, surveyed more than 100 senior executives at packaged-goods firms with at least \$50 million in sales. Almost two-thirds (62%) rated their image problem as "negligible" and 48% said that "a negative public image is something that the advertising industry will simply have to live with."

IRAs for homemakers

A proposal now before Congress to let nonworking spouses open full-scale tax-deferred retirement accounts (IRAs) is catching on like motherhood. Archenemies like the National Organization for Women (NOW) and Schlafly's Eagle Forum, for ex-

ample, are backing the plan, and so are congressmen of every political stripe, on both sides of the aisle. The idea would let nonworking spouses, male or female, deposit up to \$2,000 a year, or a maximum of \$4,000 per couple, the same as working pairs. (A nonworking spouse is now limited to \$250.) Mrs. Schlafly told the Senate Finance Committee the present situation leads "women to abandon the role of career homemaker. . . ." NOW argues that women working at home are as valuable as their deskbound sisters. President Reagan has no stated position on the bill, but it is hoped

Diamonds by the numbers

A New York diamond firm has come up with a new protection gimmick for its wares—laser-cut identification numbers. Lazare Kaplan & Sons, founded in 1903, has developed a laser device that inscribes logo and an identifying number on its stones. The first devices have been leased to the Gemological Institute of America, and an international registry for the diamonds is being set up. By providing fast recognition of stolen stones, says Earl Simson, Kaplan's new scientific director, police, insurance companies and banks will all benefit. (There is another protection system, which involves photographing diamonds, but Simson says it is not as practical.) The laser-based system, which can also be

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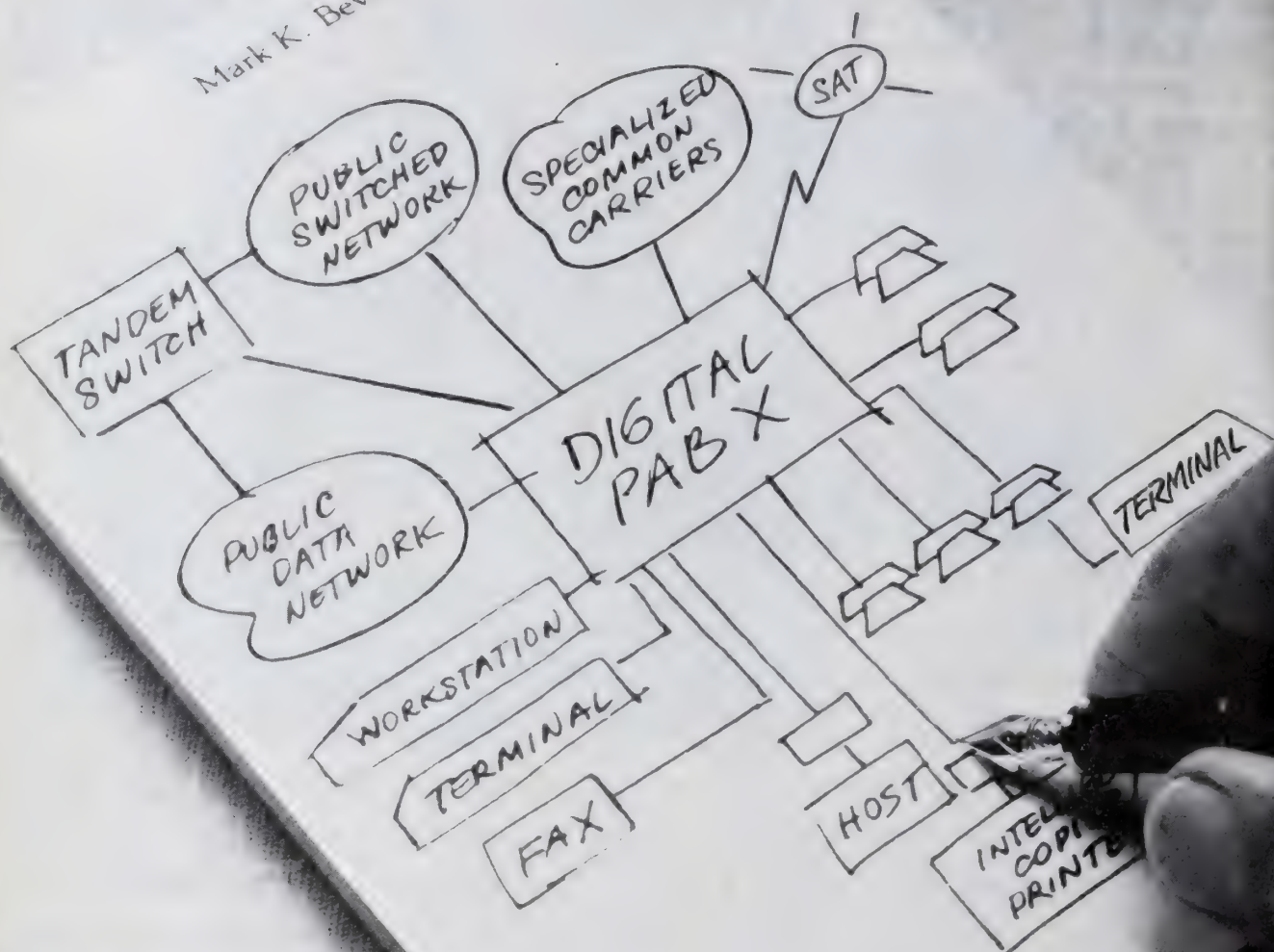
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Follow-Through

Grow—or go

Press speculation to the contrary, *FORBES* reported this past spring (Mar 28) that investors might have to wait for a public offering of Osborne Computer, at least until its new portable, the Executive, proved itself in an increasingly competitive market. Now the public may never see Osborne's shares. The company has dropped its plans to go public—and for very good reason.

Since the Executive's introduction in May, the Hayward, Calif. company's original model, the Osborne 1, has suffered badly. Osborne has responded with a 35% price cut, closing two plants (one on the East Coast) and laying off 292 workers. The company explained that this was caused by lowered demand for the Osborne 1, combined with more labor-efficient production techniques. Meanwhile, however, sales of the Executive had also slowed.

Amidst this news, the *Peninsula Times-Tribune* of Palo Alto reported that Adam Osborne, the founder and chairman of the firm, had told a local business group that his company "can't survive on its own in this industry" and that he was searching for "a large company that will take a piece of us and grow in partnership or be acquired."

Osborne says his quotation was "butchered." "To say that we're on the auction block is incorrect," he maintains. Now trying to refinance through a private stock placement, Osborne says, "We are entertaining a

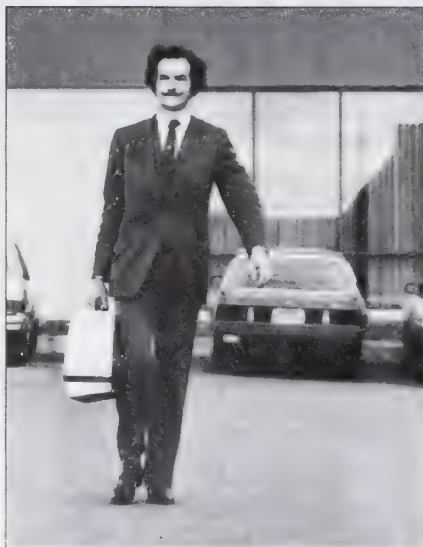
number of options that do include overtures from large companies, some involving more money coming into the company."

Then his punch line: "With the arrival of IBM and other large companies, one or two years hence it will be impossible for small companies such as Osborne to survive. Small companies have got to become big or be merged with big companies."

Stirrings on the river

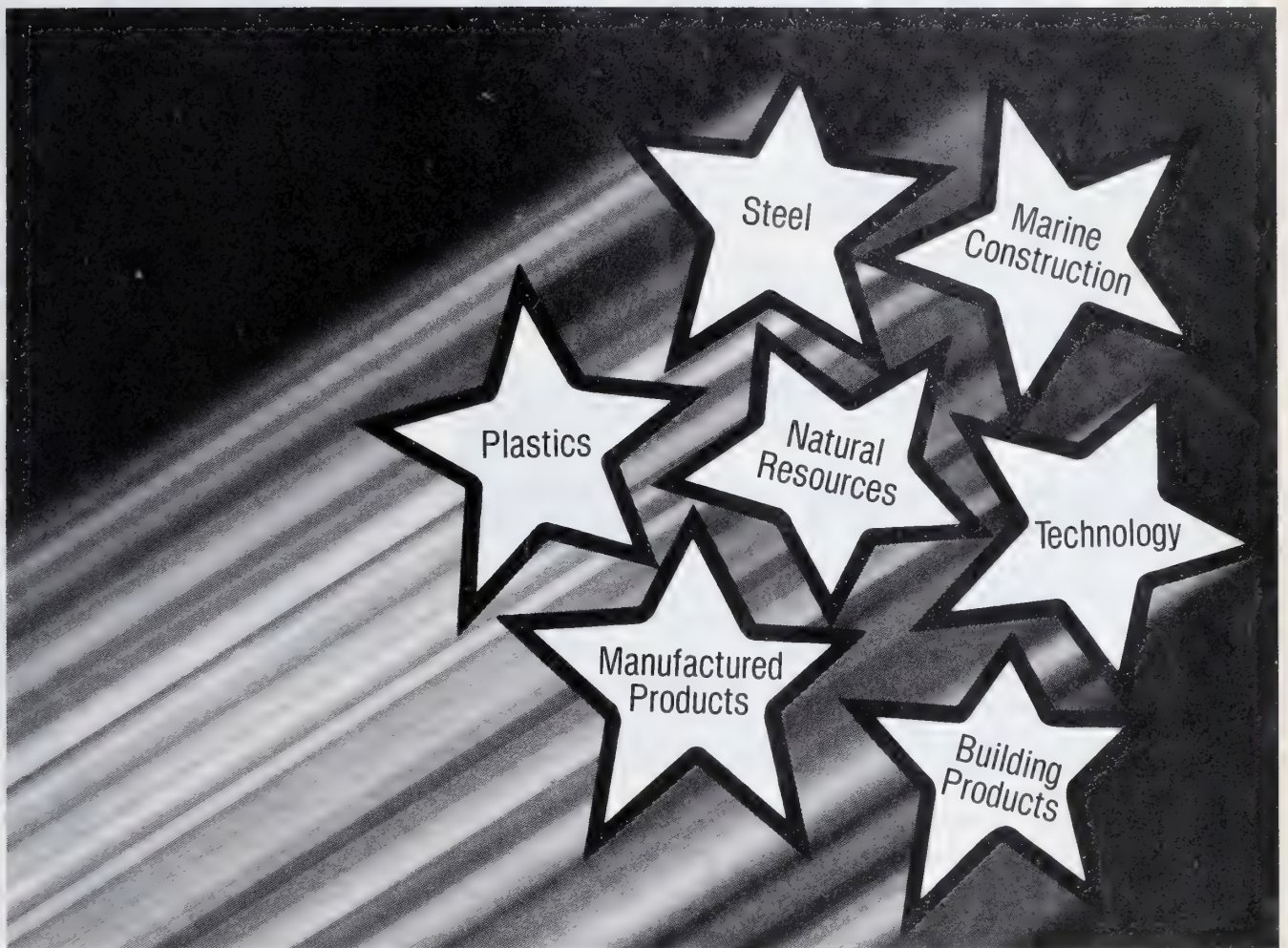
"What happens in Moscow determines our fate," Jack Lambert, head of Twin City Barge Co., told *FORBES* last year. Russia, once the biggest buyer of U.S. grain, had been out of the market since Jimmy Carter's 1980 embargo, and the U.S. barge industry was having its worst year in its more than 200-year history (*FORBES*, Nov. 22, 1982). Part of the problem was that Wall Street had promoted barges as tax shelters, and 20% of the nation's 28,000 barges, many owned by small investors, were sitting idle. Smaller companies were hard hit by a federal waterways user fee, first imposed in 1980. By last year the only publicly held independent companies of any size were Twin City (revenues, \$90 million) and CLC of America (\$82 million). Another six were held by corporations such as Dravo, U.S. Steel and Chromalloy. But there was hope on the horizon, not the least of it that the Soviets had suffered yet another bad harvest and might be back in the U.S. grain market soon.

The bad news for barges continued into the first half of 1983. Revenues dropped, and many of the companies are losing money. Twin City and CLC stocks, both trading at about \$12 a share, have been lackluster since 1981. But now the Soviets have signed a new five-year grain contract with the U.S., promising to buy a minimum of 9 million metric tons a year, beginning Oct. 1. "That's magnificent," says Lambert, "and no one's going to beat them off with a club if they want to order more." The Chinese, out of the grain market since last January, settled their import disputes with the U.S. last month and are "back in the store." According to analyst Jerry Levine of Merrill Lynch, there is still a 20% to 25% oversupply of grain barges on the Mississippi. But barge rates, he says, have begun to rise, hitting break-even or better for the first time in over a year. "I would dance around a maypole if there was



Adam Osborne
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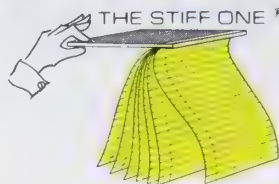
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Follow-Through

one in front of our office," says Lambert. Next year, he thinks, should put Twin City back in the black.

Elsewhere in the industry, things don't look so hopeful. At Dixie Carriers, the Kirby Exploration barge subsidiary that carries coal, chemicals and petrochemicals, for example, the first half saw revenues down about 25% and profits down from \$2.5 million pretax to zero. "Rates have deteriorated further since 1982," says Archie Wilson, president of Dixie. "It will be mid-1984 before anything dramatic will take place."

Much of the industry is also casting an anxious eye at CSX. The second-largest railroad in the U.S. tendered for Texas Gas Transmission in June, and, despite a fight from the Water



Grain barges on the move

The word from Moscow is good.

Transport Association, the \$1.07 billion deal went through last month. American Commercial Lines, Texas Gas' barge line, is being held by an independent trust until the Interstate Commerce Commission can rule on its acquisition. "We believe the shipper should have the advantage of one-stop shipping," says a CSX spokesman. Counters Dixie's Wilson, "It gives us great concern to have a railroad owning a barge system with which it competes."

There are those, however, who would be happy with the CSX acquisition. "If that is successful, then some of the transportation conglomerates could be interested in other barge companies," says Merrill's Levine.

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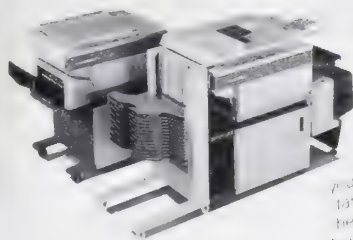
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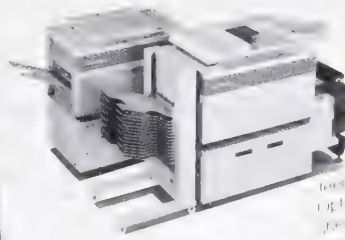


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Readers Say

How to save WPPSS

SIR: The state of Washington should declare itself a "developing nation." Then the International Monetary Fund could bail out the Washington Public Power Supply System. With an IMF "grant," it could pay off the outstanding bonds.

—Bruce H. Forsyth
Rochester, N.Y.

Not a giveaway

SIR: "The newest pork barrel" (July 4) describes my proposed Mortgage Retirement Account Act of 1983 (MRA) as a giveaway to the housing industry and a \$10 billion drain on the Treasury in lost tax revenues. The Individual Retirement Account (IRA) was created to encourage Americans to save for retirement. Generally, the most valuable and most common retirement asset for retired Americans is their personal residence.

The MRA would simply change IRA law to allow taxpayers to invest their allowable \$2,000 IRA deduction in a personal residence, either to accumulate a down payment or to prepay mortgage principal and therefore pay off the mortgage at a faster than scheduled rate.

—John Tower (R-Tex.)
U.S. Senate
Washington, D.C.

Tech talk

SIR: Re "Kids' Video-Game Dexterity Is A National Asset" (Fact and Comment, Aug. 15). While crawling through the business section of B. Dalton in Austin, Tex., I overheard three 13- to 14-year-olds complaining about the simplicity of some of the computer books on display.

One ended the conversation with, "Well, I'm trilingual now... Basic, Fortran and Cobol."

—Graham Thatcher
Rapid City, S.D.

A fed program that works

SIR: Re your recognition of the Civilian Conservation Corps (Fact and Comment, Aug. 15), and more recently, the California Conservation Corps, you should be aware as well of the accomplishments of the federally sponsored Youth Conservation Corps.

During the early Seventies, as part of the YCC, I worked in the Great Smoky Mountains National Park. The work was hard, the pay was low, but the personal experience was unexampled, leading me to an appreciation of nature and of my then-untested abilities.

—Edward W. Myers
New York, N.Y.

Getting RR's good ear

SIR: Your Aug. 1 item (Trends) concerning the President's good ear was indeed sharp reporting. I noticed, with pleasure, during your interview with the President, pictured on page 18, you had the President's good ear.

—Richard King Broun
Norristown, Penna.



For bearing, left is best

Mutual consent

SIR: In reading the verbatim transcript of your Oval Office conversation with President Reagan (Fact and Comment, Aug. 1), I couldn't help but wonder—is the White House taping system back in operation, or is MSF blessed with total recall?

—Robert Burry
Carbondale, Colo.

We both taped, overtly, to be sure of verbatimization.—MSF

Forsake first use

SIR: You sarcastically dismiss the Bundy/Kennan/McNamara/Smith article in the Spring 1982 issue of Foreign Affairs (Fact and Comment, Aug. 15) that advocates that the U.S. promise not to be the first to use nuclear weapons in the event of a war with the Soviet Union. Among their points:

Our first use of such weapons in Europe would risk the devastation of

our own cities—a fact undermining the credibility of the deterrent.

We should move in the direction of greater reliance on conventional defense. A recently released study by leading arms experts concludes that if the NATO powers were to increase defense expenditures by 4% to 5% per year in real terms, the necessary level of conventional armament should be achieved within the decade.

We have, and would need to retain, the nuclear capability to strike back, in the event of first use of nuclear weapons by the Russians. That capability should deter Russia from resorting to nuclear arms.

—Peter H. Kaskell
Stamford, Conn.

Didn't beat Princeton

SIR: The table in "Campus cop-out" (Aug. 15) reports a 45% increase in the total size of Yale's endowment in the year ended June 30, 1983, vs. a 42% increase for Princeton. The Princeton number is 45%, not 42%. We may have let Yale tie us one year, but they certainly didn't beat us.

—Carl W. Schafer
Financial Vice President and Treasurer,
Princeton University
Princeton, N.J.

SIR: One problem in the fiscal management of not-for-profit organizations is the diffidence of board members. A mentor in the philanthropic program business once said: "The point at which business leaders cease to function as entrepreneurial leaders is the point of their appointment to a governing board."

—Arthur C. Frantzreh
President,
Arthur C. Frantzreh, Inc.
McLean, Va.

Estimate is up

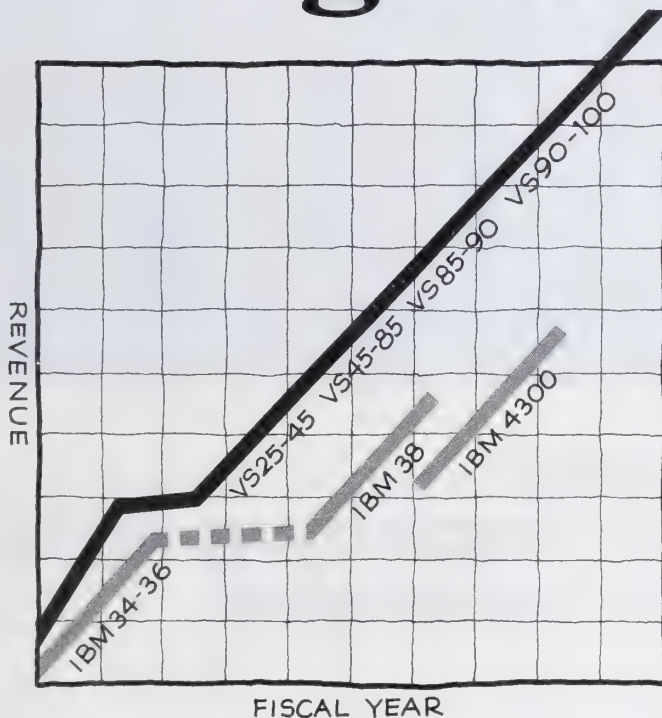
SIR: In the Aug. 1 article entitled "When the music stops," the 29% downward revision in earnings estimates for HBO & Co. was the result of failing to adjust for a recent 3-for-2 stock split.

—Terence M. Quinn
New York, N.Y.

Reader Quinn is correct. The figure for HBO & Co. should have been up more than 5%, one of the best on the list.—ED.

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

ARE INTEREST RATES UP TO STAY?

No.

WILL THE UP IN INTEREST RATES STALL THE NEW HOUSING REVIVAL?

We observed here six months ago that "with mortgage money now available at 12.5%, projected housing starts will soon be well up again." The corollary presumably would be that the current 2% climb in mortgage costs from the low 11.5%-12% level would choke off the resurgence of home building.

"Wrong," says Ray Yavneh, the head of FORBES Special Situation Survey. "With 1,084,200 housing starts, 1981 was the poorest year for new housing since World War II.

"Then, with 1,062,200 starts, 1982 was worse.

"Don't join the oversimplifiers. Be careful, in any commentary on housing data, to distinguish between seasonally adjusted annual *rates* for a given period (monthly, quarterly) and numbers of *actual* starts.

"This year will come in at around 1.6 million starts—a staggeringly strong rebound, above everybody's expectations last year. And 1984 will be good, too."

Happiness is believing that Mr. Yavneh is more apt to be right than those who feel that a 14% mortgage rate will stifle the revival.

SPEAKING SOFTLY AND ACTING SOFT ARE TWO VERY DIFFERENT THINGS

Only out of stark necessity do we carry the world's most expensive big stick. Our freedom—and, not so incidentally, the rest of the Free World's—depends on it.

We are a principled nation and, because we have such a propensity to preach to those we consider in breach, too often smaller unprincipled bullies of the Qaddafi stripe figure we're too soft even to finger our stick. In Central America, Chad and the Middle East we now have deployed

mighty reminders that there is a mite more behind our spoken expressions of concern.

Sure, we're overextended, if one assumes that in each instance our presence might lead to all-out military involvement. But our presence is more apt to snuff out a flame that could lead to conflagration.

Look what a couple of thousand Frenchmen flown to Chad have done to stall that menacing Libyan maniac.

TALKING ABOUT BEING SPREAD THIN

how about the U.S.S.R. itself? Afghanistan. . . . Poland. . . . Shoring up minions in Mozambique, Angola, Ethiopia, Nicaragua, Kampuchea. . . . Paying through the sickle to

Cuba, Syria. . . to say nothing about the stirring among the minority races in Russia itself, who now constitute a majority.

AT&T RINGS THE BELL

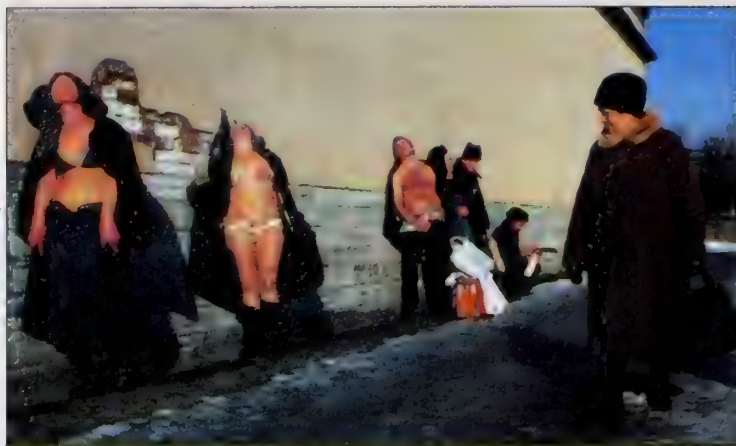
AT&T shouldn't feel too down that it can't use its invaluable Bell name and symbol. The initials AT&T are virtually a symbol; none stand higher, brighter in the corporate alphabet spectrum.

And, I must say, those 22 divested local units and their 7 regional parents who don't now make the most of their Bell have to be out of their circuits. (Pray tell, what Bell does USWEST, NYNEX, Pactel or Ameritech ring?)



THE SUN ALSO SHINES ON LENINGRAD

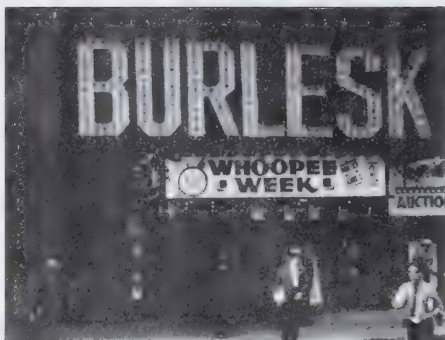
Though, as this photograph which appeared in *Life* magazine would suggest, the rarity of it leads people to go all out in soaking it up.



ANYONE REMEMBER WHEN BURLESQUE WAS IN BLOOM?

It's jolting to realize how few alive today will recall from experience what a big thing, a very naughty thing burlesque was considered to be in this country half a century ago.

How vividly I can remember in midteens making an occasional Saturday sortie with a couple of school chums to New York's 42nd Street, where there were two burlesque theaters among multiple legitimate, as well as movie, theaters. The off-color jokes and the strippers (who never got beyond bras and panties that would look positively demure next to today's bikinis) wowed us.



And to think of the near-total support New York's most fabulous mayor, Fiorello La Guardia, won when he closed down the burlesque theaters with blasts of fiery, heartfelt moral outrage! Under the headline "La Guardia Backs Ban on Burlesque," the *New York Times* of May 3, 1937 quoted

the feisty mayor: "The operators of the burlesque houses put more and more filth and lewdness into their presentations and maintained a brazen and arrogant attitude of defiance. There will be no letup on the part of the city in this situation. It will be a bitter fight to the finish against the incorporation of filth."

How innocent it all seems now.

CRACKING DOWN ON THE ART "GIVING" RACKET IS

most certainly in order. With mighty rare exception, the tax credit for gifts of art should bear a reasonable relation to the donor's cost. Except, in those rare instances, when decades have passed since purchase, and the artist's fame has soared.

Fortunately, there's a wise effort by enlightened art dealers and museumers who've cooperated with the IRS in the form of an art advisory panel. Cheers for this effort to crack down on this form of white-collar tax fraud.

THE ULTIMATE IN GRACEFUL REJECTION SLIPS

"A British writer's submission to a Chinese economic journal, according to *Los Angeles* magazine, was returned with the following cover letter: 'We have read your manuscript with boundless delight. If we were to publish your paper, it would be impossible for us to publish any work of

a lower standard. And as it is unthinkable that, in the next 1,000 years, we shall see its equal, we are, to our regret, compelled to return your divine composition and beg you a thousand times to overlook our short sight and timidity.' "

—from *Media Industry Newsletter*

... SPEAKING OF ANSWERS

Regardless of whether it's a result of arrogance or ignorance, it's inexcusable for businessmen who accept business invitations to luncheons, dinners or functions that involve planning for food, seating, souvenirs, etc., subsequently to neither show up nor call up when the commitment can't be kept.

It's astonishing the number of those who cavalierly

ignore such basic consideration—which is, after all, what manners are all about.

Not many who lack such rudimentary courtesy get to corporate upper echelons. But there are too many at other levels who say "yes" and then don't show.

There's nobody so important or so unimportant for whom or to whom rudeness is ever excusable.

YESTERDAY'S POLITICIANS SKEWERED EACH OTHER EVEN MORE

devastatingly than today's. Compare these putdowns by two long-ago U.S. Presidents with the language-impo-
verished efforts of today's office-seekers.

Wrote John Quincy Adams of Daniel Webster: "Mr. Webster has no longer a Senate at his heels; nor is there any prospect that he will ever exercise much influence over the public affairs of this Country. There was a time when I should have considered this as inauspicious to the welfare of the Union. The recent exposition of his principles has convinced me that the loss of his services in the chief magistracy will be no disaster to the American People. His Constitutional Doctrines are radically unsound—and even if none purer of alloy should ever elevate the standard of the Nation's policy, there is little reason to apprehend that any of baser metal will ever obtain the stamp of National approbation."

And this, by Zachary Taylor, who was finally nominated

in a convention that proved to be Henry Clay's last presidential hurrah: "I say I have been for some time and still entertain the opinion he, Mr. Clay, could not have been elected and had he been again brought before the country as a candidate the effect would have been the perpetuating the present party in power on the country and which still

may be the case, the effects of which in my humble opinion will have the effect of undermining the purity of our glorious institutions, and that too at no distant day, in such a way that there will be but little left of them other than in name; I presume therefore the question with the convention was not as to who ought

to be selected as a candidate, but who could be elected with the greatest certainty, who would arrest the downward tendency of our national affairs, and bring the government back to its original purity as in the days of our first Presidents."

*All be no disaster to the American
ly unfound—and even if none
of the Nations policy, there is little
it ever obtain the stamp of Nation
J. Q. Adams.*

INSTANT CONCLUSIONS

befit bereft minds.

THE BEST VISION

Insight.

BOOKS



● **Crucible for Conservation**—by Robert W. Righter (Colorado Associated University Press, \$12.50). Giving great fortunes away in a way that will do lasting good is so difficult that few have succeeded. It took John D. Rockefeller Jr. almost half a century to give the Country most of what is now one of our most popular

and dramatic national parks, Wyoming's Grand Teton. Here's an absorbing tale of how the area's ruggedly independent ranchers, cowboys and other early settler descendants were finally won over. With few exceptions, all are now numbered among the millions who love and enjoy this national park.

Excerpt: *The establishment of Grand Teton National Park in 1950 was a victory for the preservationist cause at a time when the wilderness movement was struggling. Over and above the question of conservation, the issue may be seen as a victory for the democratic process. Throughout the years there was anger, vituperation, and bitterness. There were deals, there was deceit, but amidst it all the democratic process continued. There were threats, but no violence. No one picked up a gun or a bomb, although at times they were sorely tempted. Order remained, and the national will of the majority prevailed.*

● **The Art of the Japanese Kite**—by Tal Streeter (Weatherhill, \$11.95). In Japan being told to go fly a kite is a serious assignment. American sculptor Tal Streeter spent two years there gorgeously capturing and practicing this colorful and major Japanese art form. You can see it all here, hanging by a string.

Excerpt: *I made my first kite around the time of my ninth birthday. The sticks were scraps of pine, the paper a large, flattened-out brown paper bag. I had two full summers of fun with that kite; I seldom tired of sending it toward the Kansas sun. I had other toys, but the kite was a favorite from noon to sundown through that summer and the following one.*

The Christmas between the two summers was a milestone on the road to my becoming a sculptor. Hanging from the branches of that year's Christmas tree were many small packages, and under the tree was a still larger gift. The first package contained a folding rule, the next a hammer, then a saw, a pair of pliers, and several other carpenter's tools. The big present turned out to be a wooden tool chest. These weren't toys, I felt. In time, I grew away from that disappointment. My father taught me how to use the tools properly, and the idea of making things flowed uninterruptedly from that point to today.



Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

The More Things Change . . .

The whole situation [in Nicaragua] seems endlessly confused to foreigners who have been trying to follow the press accounts. There has been much talk of American oppression of Nicaraguans. In all my years of contact with that country I am still to see or hear anything that looks like exploitation. As far as the United States Government is concerned, its chief interest has been in seeing the will of the Nicaraguan people carried out, in accordance with the terms of their own constitution. The U.S. Government has favored those elected by due process of law and of late has opposed those that came into power through illegal revolutions.

—Professor Jeremiah W. Jenks, U.S. economist and expert in public administration, interviewed in *FORBES*, Apr. 15, 1927

Tax Cut Up?

Repeal of tax indexing . . . would mean that effective tax rates would rise year after year as even moderate rates of inflation pushed taxpayers into higher brackets. . . . Most middle and upper income people base their spending on their income over a substantially longer period of time. When someone thinks his income is going to be higher in the future, he is more willing to spend today.

The fundamental implication is that a repeal of indexing would jeopardize

the recovery this year even though it only raised tax revenue in the future.

—Martin Feldstein, chairman, Council of Economic Advisers, speaking before the Economic Club of Detroit

Shoot Honkers

Many Texas newcomers are warned of the dim view Lone Star drivers take of drivers who honk at them. "It's considered rude," the warning goes. "You can get shot."

Although people from other parts of the country take the view that shooting people is a bit rude itself, law officials like Lieutenant Massey concede that the Texas penchant for carrying a firearm in a vehicle, most often a hunting rifle, tends to escalate the freeway violence.

—*New York Times*

Restore the Dignity

My chief concern today—and I think it ought to be a major concern for all Americans—is to restore the dignity of teaching as a career. It is still possible in America today to be proud of being a teacher.

That's a message which I believe could be developed by groups such as the Advertising Council. What I have in mind is a cover picture of a teacher at work in the classroom—chalk on his coat, patches on his elbows, not

very stylish in general, and surroundings certainly not very posh. The catch line would be: "The chairman of General Motors should ask why this man works for \$15,000."

Such a story could become significant for all of American education. The business of quality teaching has to be uppermost in the minds of all Americans, and one key lies in our perception of teaching as a career.

—Bruce McClellan, headmaster, The Lawrenceville School, Lawrenceville, N.J.

There's this myth that the artist has to starve in the attic, but that's romantic nonsense. I can write just as good music on a full stomach as on an empty stomach—maybe even better.

—composer Ralph Shapey, winner of a \$288,000 MacArthur Foundation award, quoted in *Time*.

Ultimate in Vanity

Ancient Evenings is a turgid book, and revels in guts and gore, but the most offensive thing about it is the vanity that permeates the entire work, an immense, suffocating vanity. Norman Mailer's unblinking, stoic gaze here seems no more than the surliness of an aging man who feels that he, alone among men, does not deserve to die and wants to be saved for some kind of godlike sex beyond the grave. As Raymond Chandler said of Hemingway, he writes as if he wants his epitaph to read, "Here lies a man who was bloody good in bed. Too bad he's alone here."

—Rhoda Koenig, *New York magazine*

Women's Lib Pays Off

As I walked past a construction site in a new spring suit, a worker munching on an apple yelled out to me, "Good afternoon, honey. Want a bite?"

Against my better judgment, I yelled back, "No thanks, I'm on my way to lunch."

The hard hat kept talking as I proceeded up the block, but I ignored him. Finally he proposed, "Hey, how about lunch?"

"No thanks," I replied.

I thought he had given up, but as I crossed the street he shouted, "I'll let you pay!"

Ethel Weinberg, *Savvy*



"There's no point hanging about waiting—I've just bought this one."



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Kings and 100's.



Kings: 12 mg "tar," 1.0 mg nicotine—100's: 14 mg "tar,"
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The Art of Investment Banking.
First in a Series.
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Art Kane

Art Kane July 1983 New York

Lehman

Surprise. Corporate America is still owned by individuals. These private investors hold over 55% of all listed shares. Clearly, this retail market is vital to equity issuers. And Lehman Brothers has one of the most productive sales forces in all of equity retailing.

American Motors Corporation

Selling 55% of a 10 million share offer—at retail

American Motors had substantial product development costs to finance. Lehman Brothers helped to analyze the market situation with AMC, and a new common stock issue was decided upon. We co-managed the offering and helped generate enough buyer demand to double the initial filing to 10,000,000 shares. We then sold 5,500,000 shares—276% of our underwriting commitment. And virtually all at retail. *AMC chairman Paul Tippet commented that "When it comes to equity distribution, Lehman Brothers does an outstanding job."*

Chrysler Corporation

Retailing twice what any other firm could sell—wholesale or retail

Chrysler decided to take advantage of its turn-around to restructure its balance sheet.

Based on our knowledge of today's equity market and our equity underwriting strength, Lehman Brothers recommended an offering of new common stock and was named co-manager. Using our own distribution system exclusively, we sold 3,500,000 shares of the third largest offering in history.

Before institutional designation, this performance was twice that of any other co-manager. Wholesale or retail—"wire houses" included. *Chrysler chairman Lee A. Iacocca said, "Nobody sells better than Lehman. And you can quote me."*

Uniroyal, Inc.

Selling 232% of our commitment

Uniroyal's new management had returned it to profitability. Lehman Brothers saw this as an opportunity to strengthen Uniroyal's balance sheet and improve its acquisition capability with a new common stock offering. Uniroyal agreed and filed a 3,000,000 share offering with Lehman Brothers as sole manager. Following a comprehensive market-

ing effort, Uniroyal was able to increase the offering to 5,000,000 shares. We sold over 3,000,000 of them—232% of our underwriting commitment. *Joseph P. Flannery, Uniroyal's chairman, summed up the transaction this way: "We just couldn't have asked for a better performance."*

United States Steel Corporation

Knowing the individual investor

The Company wanted to take a new issue of convertible exchangeable preferred stock to the market. Lehman Brothers advised that it be priced and targeted at the individual investor and was named a co-manager.

The result: \$250 million of new capital was raised for the Company. Lehman Brothers alone sold \$60,000,000, all at retail. *U.S. Steel chairman David M. Roderick said "Lehman Brothers told us that they knew the retail market. This performance proved it."*

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Retail and Institutional

What are the reasons behind this Lehman Brothers equity distribution strength? We have one of the most productive retail sales forces in the securities industry. Their individual production is several times the average. Our typical investor portfolio is 20 times the industry norm. According to the New York Stock Exchange, these large investors—people with portfolios larger than \$50,000—are about 10% of the investor population. But their portfolios account for well over 50% of all individual stock ownership. These large investors have staying power. They also have very particular needs. Our professionals are specifically trained to serve those needs.

Lehman Brothers complements this retail strength with its traditionally powerful institutional sales ability. This institutional force consistently ranks in the top tier of all securities firms.

This unique combination—retail and institutional—allows Lehman Brothers to tailor every issue's distribution. The corporate client benefits: A broad ownership base. Stability. And strong aftermarket support.

Who owns America? Lehman Brothers knows it's the individual investor.

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Brothers



This car "knows" when the road is slippery.
It is the Peugeot 505 S.

The steering of the Peugeot "thinks" for itself. If conditions are slippery, the steering will order itself to cut back on the power assistance to give the driver as much feel of the road as possible.

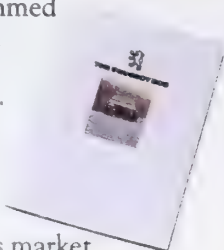
The brakes "weigh" the passengers and their luggage, then adjust themselves for safer braking. They are disc brakes—on all four wheels.

The tires are no mere letter-of-the-law tires. They are Michelin steel-belted radials.

This is a car designed to help *avoid* accidents.

Note: The Peugeot 505 S is available with either a fuel-injected gasoline or turbocharged-diesel engine.

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PEUGEOT

Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief



AN OPPORTUNE TIME TO BUY STOCKS AND BONDS

Fundamentals for nonspeculative securities look good. Inflation remains low. Next year's economy will be strong, growing at a 6% rate. Profits in 1984 will be robust, on top of 1983's impressive snapback from the recession.

Although the bull market is now in its second year, there are a number of stock groups that are relatively cheap. Among them: energy, utilities, banks, S&Ls, property and casualty insurers, retailers, consumer-oriented outfits such as American Brands and Reynolds Industries, and cyclical industrials such as Ingersoll-Rand.

The markets were shaken this summer by the Federal Reserve's foolish, half-baked attempt to "fine-tune" the pace of the recovery in the absurd belief that strong economic growth causes inflation. Fed Chairman Volcker may be able to "tighten judiciously" for a couple of months more, which will make security prices volatile. Housing will be damaged—temporarily—and the fourth quarter will be sluggish for the economy. But the Fed boss' freedom to play such games will lessen as the presidential campaign heats up.

As fears of a credit squeeze recede, interest rates will

drop. Government bond yields, currently 12%, will be around 10% by spring. Ninety-day Treasury bills, which almost touched double digits a couple of weeks ago, should be at 7% or less by April Fool's Day.

Utility stocks will move up because of declining interest rates. Consumer spending should help retailers and food processors. Greater economic activity will see companies using more oil, natural gas and coal. Property and casualty stocks and those of most banks already reflect current and future bad news. These equities will be appreciating.

The stock market should peak by next summer when investors will start worrying about what the Federal Reserve and the Reagan Administration will do after the November elections.

By the time Ronald Reagan takes his second oath of office, the long-underlying crisis in monetary policy (*see this column, Aug. 15*) will again be visible. How well the Administration responds will determine if we get an even more impressive surge in stocks than we've had in the last 12 months, or if we will sink back into the general decline of real equity values that began in 1966.

A NATIONAL FIGURE

in the making may be California's new governor, George Deukmejian.

He lacks the glamour of predecessors Jerry Brown and Ronald Reagan but, in his first few months in office, he has proven to be an effective leader. Not long ago he came by to break bread with FORBES editors and struck us as quiet, knowledgeable and able.

Upon taking office, he faced the most serious financial crisis of a big-state governor this year. He was under enormous pressures to raise taxes substantially to cover the budget shortfall. He recognized that the tax revolt, which his state triggered five years ago with Proposition 13, was alive and well, even though most political experts have written it off as dead.

He said "no" to a general tax increase. Although the Democrats control both houses of the legislature, Deuk-



mejian made his "no" stick while significantly cutting spending for the new fiscal year.

He has not only outmaneuvered the Democrats on the budget, but he may also undo their notorious gerrymandering of congressional and legislative districts with a special election he has called for this December.

Deukmejian's stand on taxes contrasts with that of other big-state governors, which may be why his popularity is high while the chief executives of Ohio and elsewhere find themselves in political trouble.

Deukmejian originally won his political spurs as a state legislator who skillfully guided effective grassroots campaigns to reform California's criminal justice system.

Here is a low-key comer who might be a contender in the race to succeed President Reagan in 1988.

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Large or small, our business systems are designed to help your people do their jobs more efficiently. So your company can compete more effectively. And win.

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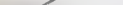


***The New Avis Rapid Return.
The Fastest Way To Return Your Car And
Get A Record Of Your Expenses.***

If you've been waiting at the counter to return your rental car and get a record of your expenses, Avis has great news. The wait is over.

Avis has just introduced the new, computerized Avis Rapid Return,SM at selected airports and major downtown locations. It's the

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The new Avis Rapid Return. It's another Avis first that means better and faster service for you. And another way that Trying Harder Makes Avis Second to None.



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GET YOUR SECOND-HALF SCORECARDS

HEREWITH, LATEST communiqués from several important economic fronts—inflation, the capital markets and the shape of things to come at Christmastime.

The outlook for inflation remains good

NOTWITHSTANDING DIEHARD MONETARISTS' fears that the 14% growth in the money supply from January through July (as measured by M1) will rekindle inflation, the battle against rising prices continues to go well. But uneasiness persists. On the wage front, some generous settlements are being recorded, like the 14.5%-over-two-years contract just won at Consolidated Edison of New York. Autoworkers are talking about "Restore and more in '84."

The biggest imponderable, of course, is the strength and duration of the economic recovery, now in its 11th month. What's Ahead thinks that while the best news about inflation is probably behind us, the future looks reassuring. Producer prices will be up a scant 1.2% for this year, and increase by 3.5% next year.

Crowding out? Expect it later, not sooner

EXPECT TO HEAR LESS about "crowding out"—the dreaded scenario in which heavy capital demands coming at the same time from both the private and government sectors drive up interest rates, thus driving away otherwise worthy, would-be borrowers. Expect the more vocal worriers to move back their forecasts of crowding out from the fall of 1983 to 1984.

Government borrowings were heavy in the first half of this year, totaling \$172.5 billion. According to Merrill Lynch economist Deborah Kuenstner, such borrowings will drop to \$150 billion for the second half. But private borrowing, which reached \$138.5 billion in the first six months, is rising to \$154 billion in the second. Those figures mean total borrowing will drop, so crowding out won't take place until 1984 at the earliest, if then. All in all, though the economy is expanding at a rate twice the standard forecast of a few months ago, total demand for funds on a percentage basis is lower than it's been in the average postwar upturn.

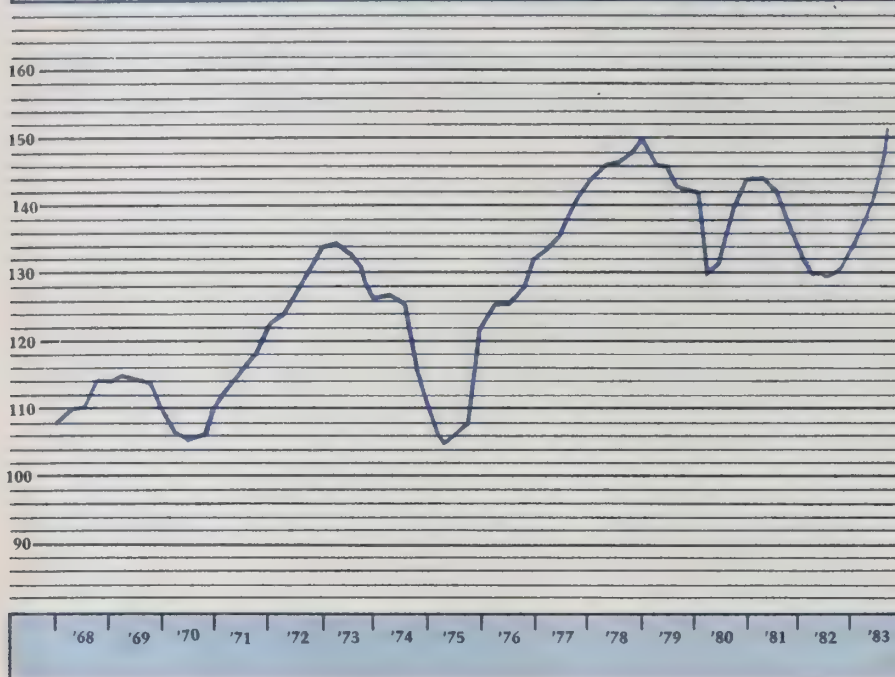
Santa Claus is going to town

AN EXCEPTIONALLY STRONG CHRISTMAS SEASON is in the making, according to a generous sampling of retailers polled by What's Ahead. Spiegel Mail Order, for example, expects holiday sales to come in about 30% higher than last year. For the industry, a 10% to 15% gain over last Christmas season revenues looks very likely.

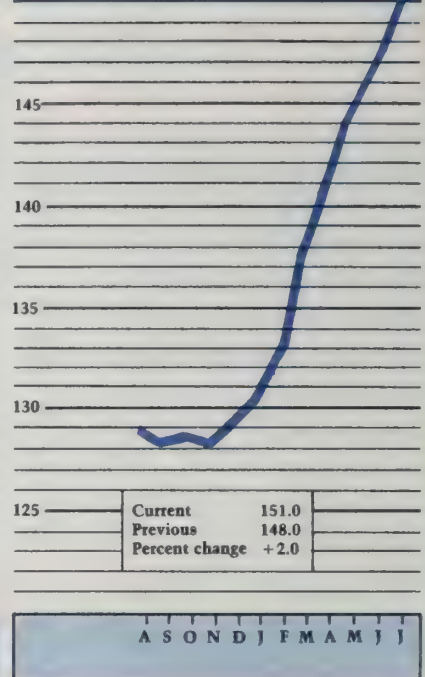
Weather, inevitably, is a key variable beyond anyone's control. Last winter, some wary buyers recall, was predicted to be one of the coldest on record. It turned out to be one of the mildest. Result: Racks of stylish winter clothing and other cold-weather gear was sold at distress prices. Other buyers worry that the recession-spawned trend toward bargain hunting and discount shopping is a permanent change. In the main, though, most stores expect to slow down, and in some cases to reverse, the trend toward ever-earlier holiday sales. In contrast to last year, most expect to hold out for full price well after Thanksgiving.

The Forbes Index

Forbes Index



12-month close-up



Current	151.0
Previous	148.0
Percent change	+2.0

Good but not great. With a 2% gain in this reporting period, the Forbes Index continues the upward march that it began nine months ago. After gaining only 1.1% in June, industrial production increased by 1.8% in July. The latest figure for consumer installment credit shows a 1.3% gain over the previous month.

However, even though consumers were increasing in-

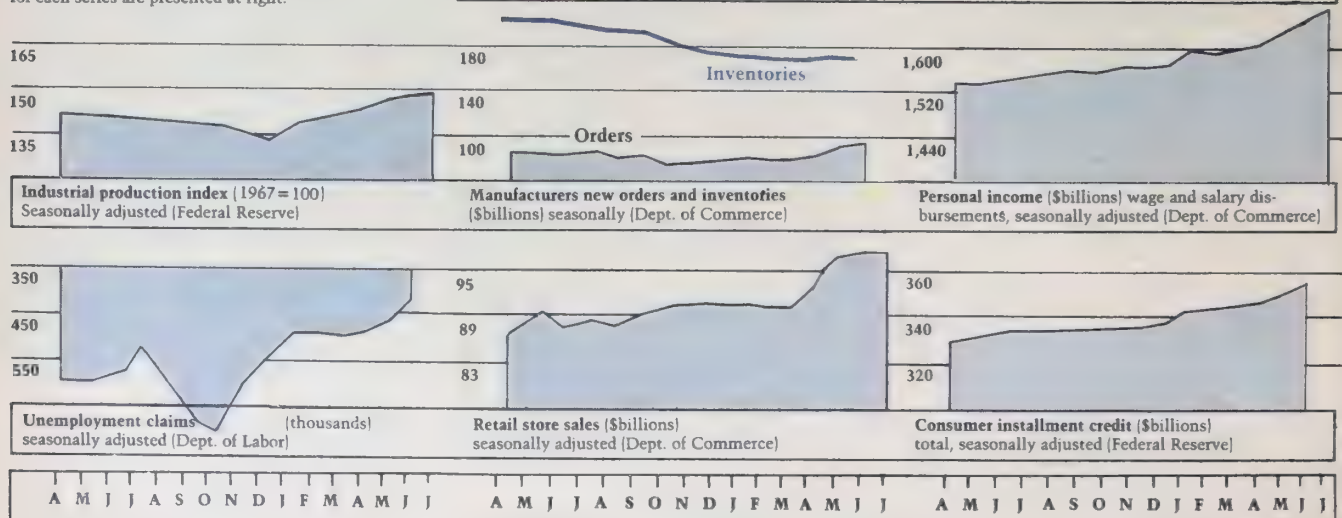
stallment debt, retail sales were flat in July, after a 0.3% gain in June.

Another cause for concern: New housing starts were up 46% from July of 1982 but were off 10.2% from this past June. Last year, by contrast, new housing starts jumped more than 17% from June to July. No one said this recovery was going to be easy.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.



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**MCDONNELL
DOUGLAS**



Duran Duran was Nobody Nobody until it discovered videotape. Is a new entertainment industry aborning?

Beautiful model meets sumo wrestler

By Pamela Sherrid

THE RECORD COMPANIES had no idea what they were sitting on," says Sony executive John O'Donnell. "You couldn't even explain these things to retailers. But when I saw the video clip of 'Girls on Film' three years ago, I started jumping up and down. 'People will buy that,' I said."

O'Donnell, 30, is in charge of Sony's video software business in the U.S. What got him jumping was seeing 3 minutes and 23 seconds of videotape. The footage features a fashion model tangling with a sumo wrestler, and a man mysteriously drowned, while the British band Duran Duran

plays synthesized pop-rock in the background. These videotapes try to do for rock what Disney tried to do for classical music with *Fantasia*. A *Fantasia* rendered in a style of 1920's Berlin decadence.

These taped sequences—called music videos in the trade—are the mainstay of MTV: Music Television channel, a two-year-old joint venture of Warner Communications and American Express that is piped free into 14 million homes by cable operators. The programming is intentionally bizarre: Dancers in black leather and chains grind to a tune of punk rocker Billy Idol. David Bowie makes love on a beach with his adorable Chinese girl friend. Elton John plays the piano on a

boardwalk in the south of France. All very edifying.

Record companies created videos as a marketing tool. Duran Duran, for example, was Nobody Nobody before it appeared on MTV, and now its record is a bestseller. But suppose the folks at Procter & Gamble suddenly discovered that people will pay to see Crest commercials. That's what's happening here. Instead of just being promotion, the videotapes are themselves becoming the product.

The record business, what's more, could surely use such a lift. Shipments are up this year, but they had been declining steadily since 1978. That's why there is a strong incentive to have video pay its own way.



Scenes from music videos of the British rock band Duran Duran
Like Disney's *Fantasia*—with a touch of Berlin decadence.

The excitement about video music stems in part from the new appetite for programming created by home video tape recorders and disk players. Hardware manufacturers, such as Sony and RCA, love music video. It gives consumers one more reason to buy their machines, the latest models of which offer stereo.

Feature films still dominate the home video players, but software affiliates of the big manufacturers are already eagerly licensing music video from the record companies. "It's clearly the next wave of viable product," says Charles Mitchell, vice president of disk programs at RCA.

Marketers think fans will want to buy music programs, even though they continue to rent movies. Each will have its niche. "Watching music video is far more spontaneous and repeatable than watching a film," says Sony's O'Donnell.

Cost is still a big obstacle. A full-length videodisk now goes for \$25 and a videocassette for up to \$80—hardly casual purchases for the youthful crowd that likes Duran Duran. Conveniently, Sony's market research shows that the longer a music video lasts, the less people watch. Your typical rock fan isn't noted for his or her attention span. So Sony, fresh from its Walkman triumph, is concentrating its efforts on a new \$19.95 "Video 45" format: three or four songs, lasting about 15 minutes. "At a party, kids can put it on to dance and then stop," O'Donnell explains.

Kids may also be dancing to videos in their favorite night spots. Record companies will get additional revenue by licensing videos to operators of new video jukeboxes (*see box*).

More than most new products, however, music video raises complex legal and economic questions. Because the spots were first made for promotional purposes, their producers skirted the complicated royalty and union agreements that characterize the entertainment industry. But now that videos may someday make money, the artists, unions and music publishers want a piece of the action. In June, for example, the American Federation of Musicians, which represents studio players, won the right to a fixed royalty on future video profits.

A hint of what the future may hold comes from Australian Robert Hart, who runs a Los Angeles-based video affiliate of EMI Music. Look at his cross-merchandising strategy for a full-length video of a Duran Duran album. Single videos from the album were shown on MTV for their promotional value. At the same time, Hart

Welcome, weirdos



Watching music in a California restaurant

Tired of Pac-Man? Bored with Donkey Kong? Have no fear, the inventors of coin-fed machines have come up with another device to relieve you of your quarters. This time there's no need to match wits with a microchip. All you have to do is get up and dance.

Hurry down to your neighborhood bar or cafe, and you may soon be able to try a new contraption called the video jukebox. Developed in England, where video music got its start, this 1980s version of the Wurlitzer requires 50 cents for a song. But along with the tune come pictures, exhibited on a TV monitor or large projection screen. Avant-garde dance clubs have been showing videos to their clientele for years. Now fans everywhere may soon pick their own favorites.

Businessmen on both sides of the Atlantic are interested. Video Music International, a small Los Angeles company headed by a former jazz musician, has been selling video jukeboxes for several months. This fall US Billiards, a well-known name in the coin-operated games business, begins distributing them nationwide through a joint venture with a British firm.

"The machine has done wonders for business," says the manager of Sound & Vision, a London pub that embraced video over a year ago. "It's brought all sorts of weird and wonderful people in here."—P.S.

licensed videodisk rights to RCA and Pioneer, videocassette rights to Sony and Thorn-EMI Video and video jukebox rights to various licensees.

Sony helped defray the cost of a promotional tour for the Duran Duran videocassette to publicize its new stereo video machine. At a Duran Duran appearance this spring in a Manhattan video store, the group attracted a swarm of young fans, and the band's videocassette is working its way up *Billboard's* sales charts. Meanwhile, Hart has negotiated a deal to air the show on pay cable. "We're close to making money," he says.

As the music video industry matures, record executives must decide whether to continue to provide their product free to MTV and its competitors, such as WTBS' *Night Tracks*. Les Garland, MTV's vice president of programming, likens his position to that of radio stations, which get free records. He thinks the videotapes need his channel more than the channel needs them. "Nobody will want to buy videos if they don't know what they are buying," he says. "Charging MTV risks killing the goose."

Some record company officials ad-

mit that Garland is holding a strong hand. "MTV is a great promotional vehicle, and we are leery of trying to pressure them," says an RCA Records spokesman. But Warner Records, owned by MTV's parent, is more aggressive. Though it hasn't yet taken on MTV, Warner has told New York's WABC-TV that it will get videos for a new music video show only if it pays a fee. "We're tired of giving away millions of dollars' worth of free television programming," says an executive.

In fact, videos are getting too expensive to use solely for marketing. Making one used to be an optional expense, but the power of MTV has made it a necessity. At Warner Records, for instance, the 100 videos produced this year will be nearly double the number in 1982, with the cost rising to an industry average of \$35,000 per song. "This is a multimillion-dollar piece of overhead that didn't exist before," says one Warner executive.

Many old-timers in the record business are appalled. But sooner or later they will have to face the fact that the bulk of their customers grew up with video and may well come to regard just plain music as boring. ■

Music video's mini-mogul



Music video producer Scott Millaney of London's MGMM

Rock 'n' roll fans in Britain and the U.S. can argue for hours about which country produces a better sound. But when it comes to pictures, the British have a clear lead. Europe's nationalized radio stations don't play much rock, and years ago record producers there turned to television to help publicize their products. That's why many of the most popular music video spots in the U.S. are imported.

No one has turned out better material than a London-based outfit called Millaney, Grant, Mallet & Mulcahy. Despite its establishment name, the punk clothes and jagged hairdos indicate clearly that MGMM is no brokerage firm. Scott Millaney, 32, is the "grown-up of the bunch," explains an employee. As the producer, Millaney puts to work the talent of his three partners—Brian Grant, 32, David Mallet, 36, Russell Mulcahy, 29—all top directors of music video clips.

With annual revenues of \$4 million and output of 120 videos last year, MGMM has helped define music video. "We started out four years ago with a £2,000 loan that I got by putting up my house as collateral," recalls Millaney, a blond, laid-back Londoner with a taste for self-promotion. He was running a small video studio for a record company when he quit to join forces with Brian Grant, a TV cameraman who had worked on musical shows. The two other directors soon joined them, attracted by music video's creative freedom.

MGMM efforts include two of the bestselling video albums ever, *Duran Duran* and Olivia Newton-John's *Physical*, and short videos for such stars as David Bowie, Elton John and Donna Summer. Millaney's challenge is to produce great material with the money record companies give him, while keeping the creative talent happy.

Budgets have been rising sharply, but they are hardly lavish: A three-minute music video might cost \$35,000, one-fifth the price of a 30-second commercial. Unless a

star shows up late for a shooting—not unusual—MGMM is responsible for all cost overruns.

"We don't make as much money as we should," Millaney admits with a smile. Why not? Well, sometimes it's directors letting off steam. "Russell especially loves busting things and throwing water over people," says Robin Walkér, who runs MGMM's Los Angeles office. Sometimes it's the perils of shooting on location. While making a video on Antigua, for example, Millaney had to pay off local hoods. Sometimes it's artistic indulgence—like the time Millaney knowingly went overbudget on a remake of *Psycho* for the band Landscape. "We use that one as a showcase," he explains.

These days MGMM is the most visible part of a \$15 million-a-year music video industry that has developed in London, and Millaney has big plans for the future. He thinks that record companies will eventually stop financing music videos, and he wants to fill that void. "We're looking to raise money to produce clips and to relicense them to the record companies," he says. "We'd like to own the finished product rather than be well-paid whores." That may be wishful thinking, however. If there is any big money to be made in videos, the record companies won't bow out willingly.

Millaney has other worries, too. U.S. competition is heating up, what with California film schools churning out young directors eager for a start and big-time TV commercial directors trying their hand at music video.

Meanwhile, MGMM's own stars are being lured to greener pastures. Russell Mulcahy, one of the most acclaimed new video makers, has just finished his first feature film in Australia (it's about a berserk boar) and Brian Grant has film plans, too. (His is a thriller about a blind piano tuner). If Millaney can't turn up similarly talented replacements, his own star could fall just as fast as it has risen.—P.S.

When is a triple-A not a triple-A? When it's a triple-B with insurance. That's what the investor should keep in mind about the municipal bond insurance boom.

What's in a rating?

By Howard Rudnitsky

THE DEMAND FOR insured municipal bonds this year is insatiable," crows an official at New York-based American Municipal Bond Assurance Corp. (AMBAC), a subsidiary of MGIC Investment Corp., which over the past ten years has insured some \$45 billion of principal and interest.

The numbers bear him out. In the first half of 1983, AMBAC insured \$3.3 billion (par value) of new municipal bond issues, a third of a billion more than in all of 1982. And 1982 was a record year. On top of that, AMBAC insured another \$1.4 billion of municipal bond funds (mostly unit trusts), up from \$800 million in the first half of 1982.

It was a similar story at White Plains, N.Y.-based Municipal Bond Insurance Association (MBIA). "So far this year we have insured about 12% of all new long-term issues," says Lauren Miralia, executive vice president at MBIA's managing agency.

Investors are clamoring for protection after reading about WPPSS and the default of two lifecare issues this year. Municipal bonds are hot with individual investors these days, but the defaults have made them a bit more selective. As a result, says Jack Merritt of Chicago-based Van Kampen Merritt, the largest sponsor of insured municipal unit trusts (\$4.9 billion), "our trusts routinely sell out in a matter of hours, as soon as we put them together."

In June, Merrill Lynch brought out the largest insured trust to date, a \$214 million issue insured by MBIA—"for people who like to wear belts with suspenders"—followed by an-

other large issue in late August that was also insured by MBIA. Unlike most other unit trusts, Merrill's bonds remain insured even if they are sold out of the portfolio. That provides more marketability.

How much does insurance add to borrowing costs? The insurers claim it often can be done on favorable terms to an issuer, frequently for little more than 0.65% to 1% of total debt service (principal and interest). This is paid upfront. However, if that can

Both MBIA and AMBAC are choosy. They can afford to be choosy because the massive demand is not only from investors but also from issuers who are afraid they will have to pay heavily to market their bonds. Clearly, demand is outstripping supply.

save an issuer 25 to 40 basis points of interest over the 30-year life of an issue, the insurance, in effect, will pay for itself. In fact, argues Van Kampen's Merritt, "even if it's only a wash, it's worth it to an issuer if he couldn't sell the issue at all without the insurance."

Of course, this state of affairs has been very profitable, so far, to the insurance companies. New issue bond insurance brings in the entire premium at the time of issue (generating some \$60 million in premiums for MBIA alone last year). On the other hand, most unit trust insurance premiums are paid annually over the life of the issue. That produces less premium upfront, but, as an AMBAC

executive puts it, "It's an \$11 million-a-year annuity currently, for 25 to 30 years, even if we didn't do another drop of business." Either way, it's a nice business.

Moreover, the two insurers are choosy. MBIA avoided insuring any WPPSS bonds, and more aggressive AMBAC has a total exposure of only \$77 million on the now-defaulted WPPSS' 4 and 5 project bonds.

They can afford to be choosy because the massive demand comes not only from investors but also from issuers who are afraid they will have to pay heavily to market their bonds. Clearly, demand is outstripping supply. To meet it, AMBAC, together with another MGIC subsidiary, has only \$126 million in capital and surplus. Even bigger MBIA, which is an association of five large insurance carriers, including Aetna Casualty & Surety, Travelers Indemnity and Fireman's Fund, doesn't have unlimited underwriting capacity.

So it's not surprising that a Merrill Lynch subsidiary is reportedly getting together with four other companies to form a new municipal bond insurance company that would have a starting capital of \$100 million. That would make the new company a major bond insurer overnight. The other partners: GEC Credit (a General Electric subsidiary), Lehman Brothers Kuhn Loeb, Kemper Corp. and General Reinsurance. The new company is likely to be run by Gerald Friedman, one of the founders of AMBAC, who left that firm in 1981. In addition, American Health Capital, created last year by Voluntary Hospitals of America, Mellon Bank and a private group, also is insuring hospital issues.

There is a caveat connected with insurance protection. What if the insurance company fails before the bond does? These bonds have life spans of 25 or 30 years, after all, and a lot can happen to a company in a quarter century. Short of that, what happens if it gets into financial difficulties? It might be forced to stretch out its payments if a large number of bond failures hit it at once.

Improbable? Perhaps. The point is, insurance does not give absolute protection. Nothing does. But if triple-A is what you are after, buy a group of triple-A bonds, without insurance. Even MBIA's Miralia admits that "most insureds are selling as double-A and sometimes as cheap double-A." The market is telling you that turning a triple-B insured into a triple-A may not be the bargain it seems to be. ■

American Can just paid big money to get into the mutual fund business. Will the brains it bought stay put?

Another try for Jerry Tsai

By Barbara Rudolph

WOULD YOU BUY A mutual fund from Jerry Tsai? A lot of people who were stuck with shares of Tsai's Manhattan Fund when it fell apart in 1969 would quickly answer in the negative. But Tsai apparently hopes a lot of other people will forget or overlook his spectacular bust. Tsai is now vice chairman and a major shareholder at American Can Co., and three months ago Canco agreed to buy American General Capital Corp., which runs \$4.3 billion worth of mutual funds.

American General isn't just another management company. It leads the industry in composite equity performance and has four funds listed on this year's Forbes Honor Roll (FORBES, Aug. 29). That's why the management firm reportedly attracted around 80 suitors, including Metropolitan Life and New York Life, Integrated Resources, Torchmark and Houston investor Fayez Sarofim.

Under the agreement American General will receive \$38 million in cash, plus something like 75% of this year's aftertax earnings, which could top \$6 million. The total purchase price comes to about 2½ times book value. That looks expensive, roughly what American Express initially offered for Investors Diversified Services.

On the surface, though, this looks like a deal that could be good for everyone. It continues American General's recent strategy of concentrating mostly on insurance. American Can, meanwhile, gets more prod-

ucts for agents at its Pennsylvania Life and National Benefit Life subsidiaries, among others, and the mutual fund company's 1,100-person sales force may well start selling American Can's annuities. And Jerry Tsai gets a chance to manage big amounts of public money again.

But Canco is buying problems, too. Partly because it is primarily an insurance company, American General was not accustomed to paying the kinds of salaries that top money managers expect. Compensation at American General's funds was always below average, and the bull market broadened that gap.

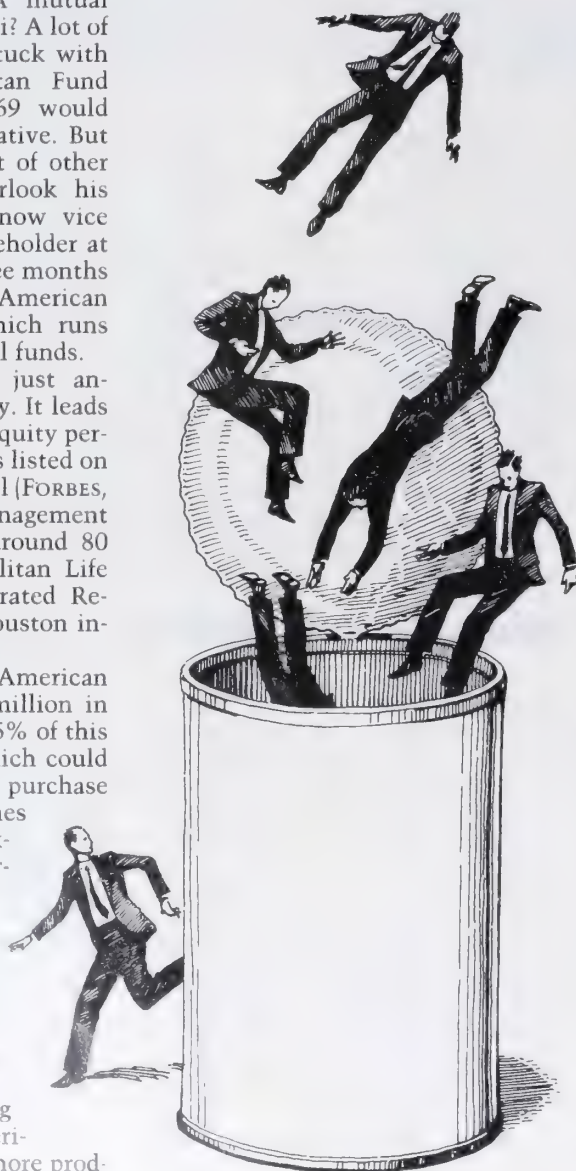
Not surprisingly, this has brought an inordinate amount of turnover among AmGen portfolio managers. Ellen Harris, for example, the former head of American General's Venture Fund, moved over to Paine Webber two months ago and, by one estimate, may well have tripled her salary. In October of 1981 William Sams, the respected manager who built the fast-growing Pace Fund, left for First Pacific Advisors. Tsai will clearly have to reverse this brain drain. But will portfolio managers who weren't very happy working for an insurance company feel any better about working for a packaging company?

Buying American General brings some other big challenges for Tsai and American Can. The most important is to keep new money rolling in. Most of the group's funds have an 8.5% load, which is a disadvantage when competing with no-load funds unless you have a brilliant record. But in the fund marketing game, you are only as good as the last quarter's results.

If American General loses its luster under American Can, the brokers who sell the funds may switch to the current hot product.

Did Tsai overpay? "He got it cheap—if the funds' sales force stays and if he can retain good portfolio managers," says one industry expert. But perhaps Jerry Tsai, who has done extremely well in the stock market since his Manhattan Fund days, is planning to do some of the stock picking himself. Or perhaps he would like to assemble a new team in his own image. "I think Jerry wants to prove himself again as a money manager," says another industry observer.

This much is clear: The American General funds are under new management. When a good restaurant comes under new management, one doesn't automatically assume the food will be as good as it was before. ■



The Third World isn't the only place bankers are making bad loans. Look what happened to some foreign banks in the U.S.

Stiffing the foreigners

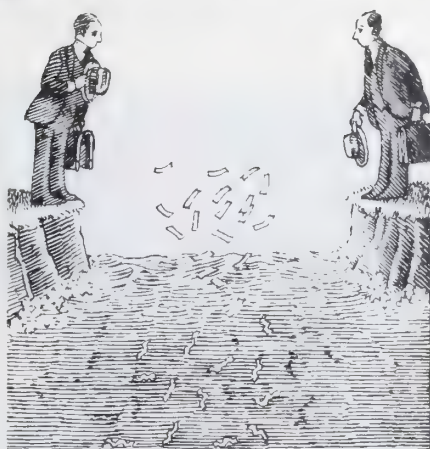
By Ellyn Spragins

FOREIGN BANKERS HAVE RUN into trouble with their own dead-beat borrowers. Amid the anguish and near panic attached to the foreign exposure of big U.S. money center banks, some foreigners are quietly getting stiffed in this bastion of fiscal stability, the U.S.

It's no secret why. Foreign bankers discovered in the late 1970s that they could rather easily compete for corporate business in the U.S. How? Simple. By cutting interest rates on loans. From Europe, Japan and Canada the bankers rushed to push cash into U.S. corporations. Inevitable result: "They've gotten burned," says a financial executive of a large corporation.

"We were swamped with overtures," says David Bevan, senior vice president of Transway International Corp., a company with \$900 million in annual sales. "Any borrowing rate they offered was generally lower than what you could get from an American bank." The foreign banks, says a loan officer of an American money center bank, "tried to buy business, and they bought a lot. They did eat part of our lunch."

Followed by postprandial pains. Foreign-bank lending in the U.S. swelled over the last five years. This was when foreigners bought business with short-term interest rates a quarter- to a half-point under the rate U.S. banks were offering the same borrowers. Soon enough, many of the foreigners' loans—as well as domestic bankers'—began to sour. But the foreigners sometimes made loans that U.S. bankers, a bit more cautious on their home turf, rejected. A money center loan officer says his bank rejected a request from a multinational com-



pany for \$250 million to finance an acquisition. "The company turned around that night, went to a Canadian bank and got that money overnight with a three-page agreement," he says. "You can guess how much credit analysis went into it."

The foreign bankers sought to limit their risk by making most of their loans to borrowers among the 1,000 biggest U.S. companies. But some of the lenders—U.S. as well as foreign—failed to look much beyond the borrower's size, and bigness isn't necessarily equivalent to solidity. Now France's Paribas has \$127.5 million at risk in loans to troubled GHR Corp., a Louisiana refinery. Foreign banks were also hard hit by Wickes Cos., Inc. and its subsidiaries, now in Chapter 11 proceedings. A group including the Banque de Paris, Canadian Imperial, the Royal Bank of Canada, Bank of Nova Scotia and a California arm of Lloyds Bank had lent a substantial portion of Wickes' \$580 million in unpaid senior debt.

In some cases, skimpy investigation and credit analysis was behind some of the loans. In February, when Tiger International, a \$1.6 billion transportation services company in Los Angeles, declared a moratorium on interest and principal payments on

half its \$1.8 billion in debt, says one of its U.S. lending officers, it caught foreign bankers by surprise. "In speaking with some of them several months before, just after our bank had started to reduce its commitment to Tiger," he says, "it seemed clear they had no idea what was going on, and they had an unsecured exposure."

Worse, from the point of view of American bankers, was the tendency of the foreign lenders to bolt and run when borrowers ran into trouble. That threatened all lenders. "It has happened four or five times," says an American banker. "Those guys were the first to head to the exit." After Allis-Chalmers proposed deferring its debt repayment around year-end, "Lloyds Bank came close to putting Chalmers into the tank by trying to pull out," says one of the company's lenders. "All of the banks kind of ganged up on them and told them they had to play ball." But Swiss Bank Corp. did manage to bail out of the Wickes' lending group, recovering its money before Wickes' bank lenders were forced to take their chances when the company entered Chapter 11 proceedings.

Such affronts to team play have soured feelings all around. Says Bevan of Transway: "We are less willing to deal with banks that are only friendly on a short-term basis, and I sense that other corporate treasurers feel the same way." Jeffrey Wallace, a consultant on banking for Greenwich Research Associates, says corporate borrowers are tending to favor U.S. banks over foreign banks. "That is a clear change in attitude from over a year ago," he says.

Burned or not, the foreigners intend to remain in the U.S. market. "Where else in the world," asks Paul Wilson of the Royal Bank of Canada, "can you find such political stability and long-term economic growth?" Some corporations, such as U.S. Home and California Portland Cement, keep well-established relationships with two sets of lenders, American and foreign. Meanwhile, the foreigners continue to promote business in the U.S. despite changing liquidity conditions at home. Boise Cascade executives say they are getting calls from representatives of smaller foreign banks that had never called before.

But the foreigners are analyzing creditworthiness much more diligently and are more reluctant to cut interest rates below market. Sometimes, it seems, a black eye can help a fellow see more clearly. ■

The reason that investors are high on tiny Unimed has to do with legal dope.

Pot of gold?

By Subrata N. Chakravarty

WE'RE VERY SHY about talking to the press," says Unimed, Inc. President and Chief Executive Paul V. Bollenbacher.

Not surprising, in a way. Based in Somerville, N.J., Unimed has only \$2 million a year in sales. Earnings and revenues from operations have declined for three years running. Unimed has only two products, both of which have been taken off the U.S. market under pressure from the Food & Drug Administration. Unimed seems to have little to talk about. Then why does its stock, unfollowed by a single Wall Street securities analyst, sell for 100 times earnings?

That bears on the real reason Unimed is shy: marijuana. No, Unimed shareholders aren't necessarily smoking it. They are investing in it. Unimed is proposing to produce tetrahydrocannabinol—THC for short, the active chemical ingredient of marijuana. THC reduces or eliminates the nausea experienced by many cancer patients in chemotherapy; so there is a legal demand for the stuff. Unimed lacks only final approval from the FDA before marketing THC under the trade name Marinol.

Some 30 states already permit patients in chemotherapy to smoke marijuana legally (even if the legality of their buying it remains murky). THC's origin in cannabis makes executives of big drug companies nervous (Can you imagine the fuss if Merck, say, were to market "marijuana"?), and that's why a tiny outfit like Unimed wound up with it. The National Institute for Drug Abuse had been looking for someone to develop and market THC, but there were no takers. "In a sense it was an orphan drug," says Ed Nida, an FDA spokes-



Unimed President Paul V. Bollenbacher
"We don't know what we have yet."

man. "There's no question about its effectiveness or legitimacy, but it's got a bad reputation."

The small size of the legal THC market also dulled interest among big companies. But for Unimed, which has lived on the edge for 20 years, no market was too small. Unimed purchased production patents for THC from a private chemist and filed a New Drug Application with the FDA in fiscal 1981. Now the National Cancer Institute, with the FDA's permission, is distributing THC free to some 800 hospitals. The cancer institute will stop doing so when Unimed gets its FDA approval to sell the drug.

Marinol is theoretically capable of abuse, but in such very large doses it

has unpleasant side effects. Besides, says Nida, "Marijuana is so damn easy to buy, no abuser is likely to bother popping these pills."

FDA approval will come just in time, so far as Unimed is concerned. Its first drug, Serc, which promised control of Ménière's disease, a severe vertigo, was taken off the U.S. market after the FDA decided its efficacy was unproved. Amid shareholder lawsuits against Unimed and the now defunct brokerage firm, Andresen & Co., the stock price collapsed. The CEO was fired, and Bollenbacher, then vice president for finance, took charge in 1969. "There was a point when I didn't cash my paycheck for six months," he says. "We were that close to running out of money." Today, with sales of only \$2 million a year, Unimed husbands its cash. It keeps \$3 million on hand.

Bollenbacher flew to Europe and negotiated licenses with three companies to manufacture and sell Serc overseas. Unimed today has no U.S. sales. Foreign licensees sell Serc in 54 countries and account for 90% of its revenues. The rest comes from Unimed's Canadian subsidiary. But the Serc patents are running out and, although Unimed did negotiate the sale of the trademark to its principal licensee on advantageous terms, Marinol is coming along in time to keep the company from fading away.

Unimed has other promising products in the works, too. Bollenbacher is pursuing clinical tests of a compound, spirogermanium, that shows promise for the treatment of prostatic cancer and lymphoma. Farther in the future is LAAM, a longer-acting, less narcotic form of methadone. Unimed may develop, test and market it.

But Marinol remains Unimed's surest entry in the drug market. It could double or triple the company's sales almost overnight and keep the company growing for the foreseeable future. The profit margins, on Marinol and also on spirogermanium, would be large and the effect on Unimed's earnings considerable. Enough to justify the current 100 times earnings? It's possible but unlikely.

With Marinol and, even more important, spirogermanium, Unimed is a likely candidate for acquisition by a company with strong marketing. Bollenbacher seems willing to sell out. He adds though: "I think it's a little premature. We don't know the value of what we have yet." Which should be a warning to investors grabbing after the stock. ■

PERHAPS YOUR LUXURY CAR WOULD PERFORM BETTER WITHOUT THE HEAVY BURDEN OF A HOOD ORNAMENT.

Over the years, expensive luxury sedans have been adorned by winged warriors, sylph-like maidens, and various other icons.

None of these have improved the performance of their cars; in fact, the evidence suggests the opposite.

An extra few ounces of chrome wouldn't seem capable of compromising several thousand pounds of car. But then, the burden isn't physical. It's far more serious than that.

It's philosophical.

THE BMW 733i: A DELIGHTFUL "ECCENTRICITY."

The BMW 733i is built on a belief that, by the standards of the conventional luxury car, verges on eccentricity.

BMW believes that superior performance is the only thing that makes an expensive sedan worth the money. And that the only architecture worth considering will be found not on the hood but within engines and suspension systems.

The difference in theory becomes apparent at the touch of the gas pedal—a gesture that produces demurral in some cars, but not the 733i. Its fuel-injected engine is designed for the heady response denied other luxury cars by their sheer heft and undernour-

ished technology.

(One reason: Digital Motor Electronics, a microprocessor-based system that orders ignition to occur at the precise instant for maximum performance.)

Unlike softly-sprung land yachts that wallow through turns, the 733i rides on a suspension that puts you in mind of racecourses rather than seaways.

That suspension is independent on all four wheels, with design breakthroughs both front and rear. And it provides an agility that left Design News "amazed that we could pull so many G's around the curve with absolutely no lean or suggestion of protest."

The 733i is also engineered to take the aiming out of driving. Its steering system is precise and tactile, never denying the driver the information the road wants you to know.

DRIVING VS. PREENING.

This same philosophical bias, favoring driving over preening, is evident in the 733i's interior.

Since driving is largely a process of making and executing decisions, the 733i provides the information to decide wisely.

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account of 7 different measures of the car's operational readiness. An on-board computer provides all manner of useful data, including the distance remaining to your destination. There's even a Service Interval Indicator that informs you when routine service is needed.

All this is accompanied by leather bucket seats, AM/FM stereo, electronically-operated sunroof, and enough other amenities to earn Car and Driver's designation as "the height of refined elegance."

And it is protected accordingly, by BMW's 3-year/36,000-mile limited warranty and 6-year limited warranty against rust perforation.*

The 733i, in other words, does not ask you to spend a small fortune for the privilege of having your senses dulled. Which is why, as one automotive journalist observed, "test-driving the 733i is more a test of the driver than of the car."

If it's been some time since you've measured either your car or yourself, we invite you to visit the standard of comparison at a BMW dealer near you.



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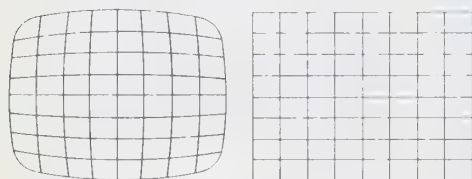
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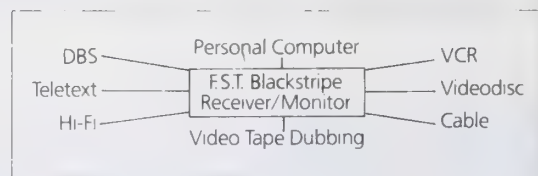
A SHARPER, BRIGHTER, BIGGER PICTURE.

Unlike other picture tubes, the corners of the F.S.T. Blackstripe are squared-off so visibility is increased. In effect, you get a 20" picture from a 19" tube. And

there's much less distortion—especially at the sides and around the corners. In fact, you can watch it from a 27% greater viewing angle and still be able to see the picture.*

The flatness of the screen also cuts the reflection of ambient light. Conventional convex screens reflect much more daylight and artificial light, so our picture is sharper and brighter. But that's not all Toshiba's advanced technology has accomplished.

As is befitting a television so futuristic in its scope, Toshiba F.S.T. Blackstripe TVs are the hearts of entire audio-visual entertainment systems—with capabilities



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From the point of view of accuracy,

sharpness, brightness, color clarity, features and design we think the Toshiba F.S.T. Blackstripe TVs will revolutionize the way the world looks at television.

But lest you think we're creating a distorted image for these remarkable sets, we encourage you to visit your local retailer and see them side by side with our elliptical competitors.

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Heinz CEO Tony O'Reilly has struck it rich again. But the shares on Dublin's stock exchange probably are gushing faster than the oil from the Celtic Sea.

Erin go drill

By Rosemary Brady

ANTHONY (Tony) O'Reilly, 47, is a Dublin lad who went off and made good. He's one of the best-known executives in the U.S., president and chief executive officer

of H.J. Heinz Co. of Pittsburgh, the catsup kings. But he's kept a stake in Ireland, too, where, among other things, he is chairman and chief shareholder—7%—of an oil company, Atlantic Resources Ltd.

"It is a substantially riskier game, a

far more complex game than one might have anticipated at first blush," Tony O'Reilly tells *FORBES* in Dublin. It started in 1981 when Phillips Petroleum and Getty Oil were planning to drill for oil off Ireland's west coast. Getty wanted Irish partners. Among those who responded was O'Reilly, who in yet another business capacity is chairman and 7.5% owner of a \$6 million (revenues) Dublin-based conglomerate called Fitzwilton. With interests in textiles, fertilizers and newspapers, Fitzwilton in 1981 had a few million in cash in the bank.

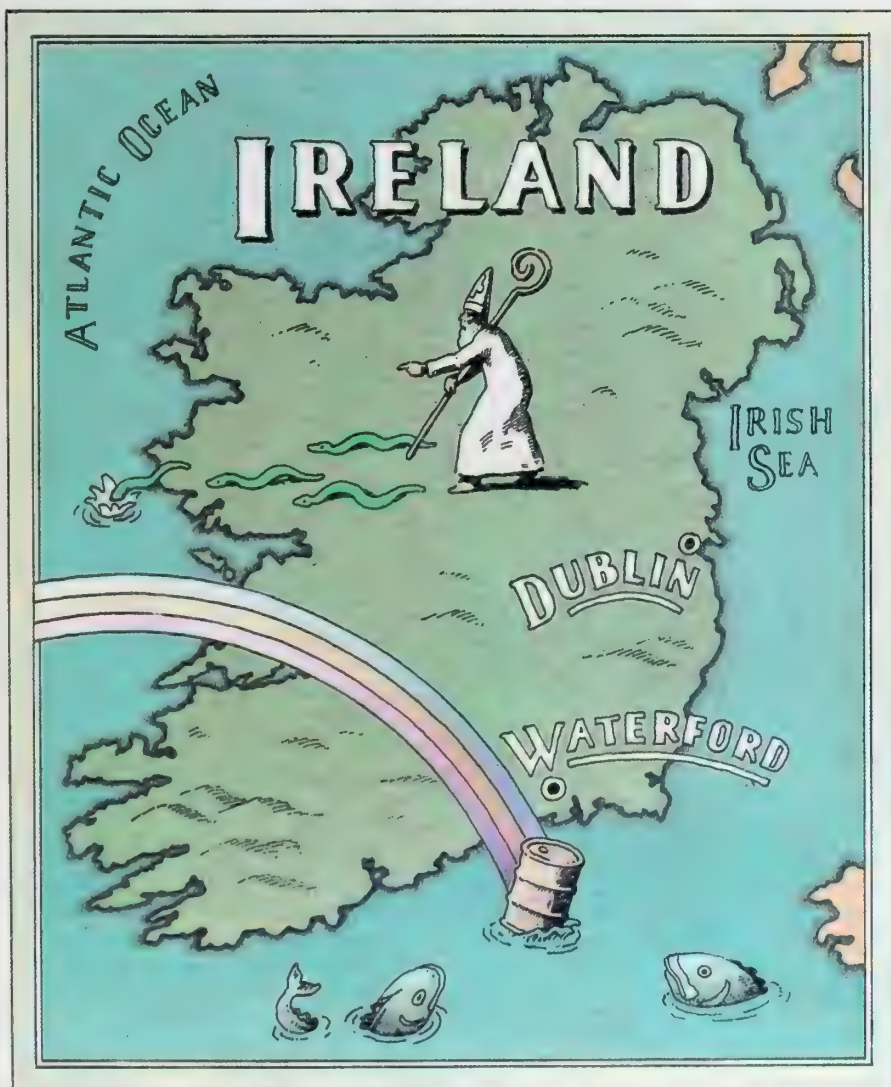
"We decided to invest in something that could dramatically change Fitzwilton, that could have a high reward," O'Reilly recalls. Fitzwilton put up about \$2.5 million. O'Reilly and nine other Dublin businessmen invested about \$1 million. Atlantic Resources started with a 10% stake in the Phillips consortium and went on to invest in natural gas exploration in Oklahoma and Appalachia. But most important, says O'Reilly, the company aimed to explore the long-neglected Celtic Sea area off Ireland's southern coast.

Atlantic Resources managing director, Donald Sheridan, who was recruited from his post as chief geologist at Marathon Oil, had long suspected that oil lay in the rocks of Jurassic age, about 160 million years old, in the Celtic Sea. Marathon had never thoroughly explored that area.

Says O'Reilly: "Don chose six blocks that he believed in. Since I own 35% of the newspapers in Ireland I have close contacts with the politicians. I got [licenses for] the blocks he wanted." Then O'Reilly went to talk to his neighbors down the street from H.J. Heinz in Pittsburgh, Gulf Oil Co. Gulf decided to form a consortium with Atlantic and brought in Union Oil Co. The two U.S. companies agreed to pay \$7.5 million for their two-thirds stake in the project.

In all, Atlantic Resources had to raise \$35 million in equity, borrowing and funds from the U.S. oil companies before recently striking oil. "Probably the worst moment of all was to hear that with dwindling funds we had a dry hole," O'Reilly says. But by now just about everyone knows the second well looks like a winner, and all Ireland is talking oil.

Atlantic Resources' market value has gushed from \$7 million to \$86 million in only nine weeks. "There have been more millionaires made in this country over the last few weeks than in any other time in years," boasts Malachy Coary, a builder who says he made \$32,000 on the Dublin



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Anthony O'Reilly of Heinz and Ireland
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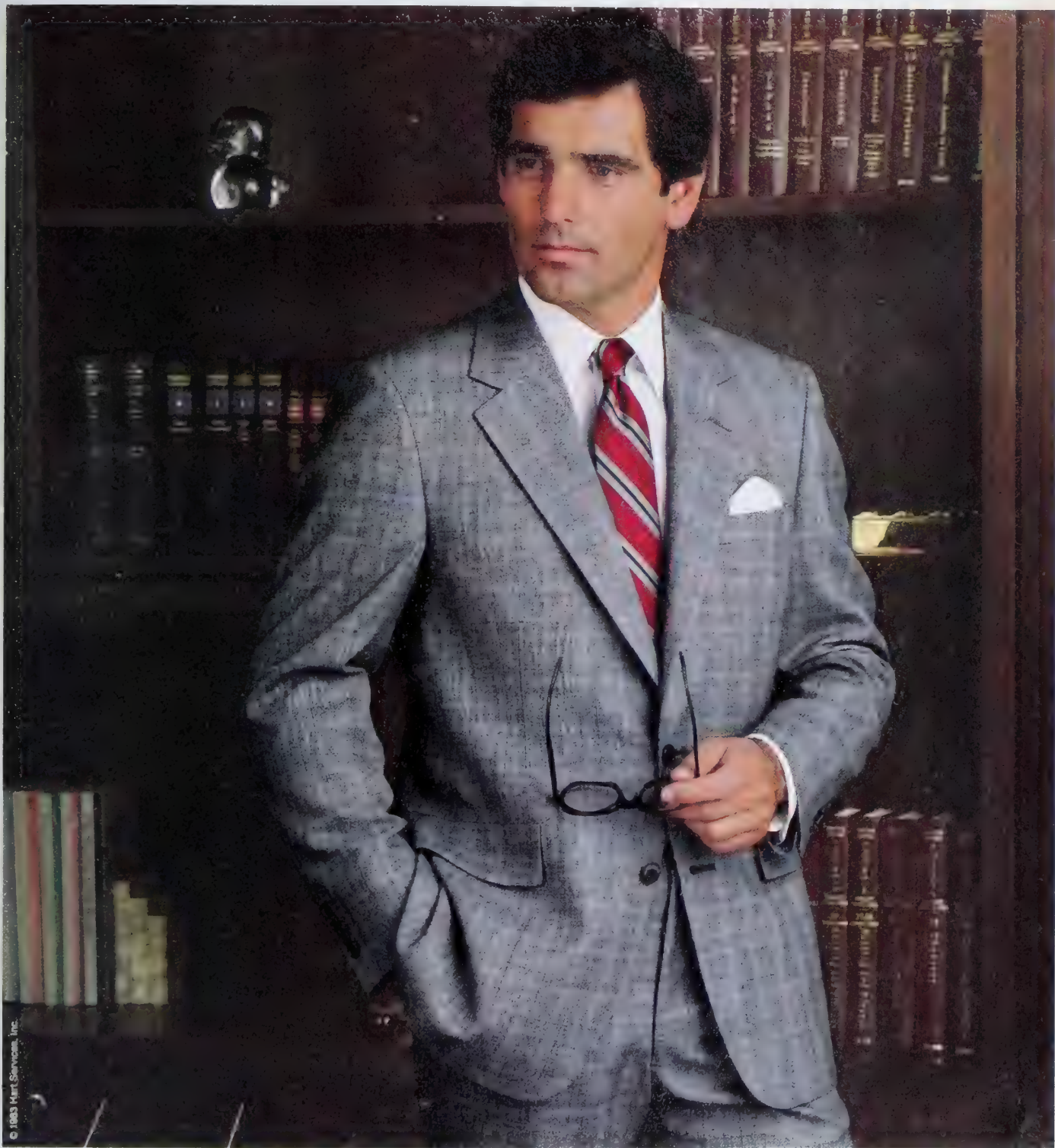
stock market recently. "It will make this country rich," declares Paddy O'Brien, proprietor of a pub in Dungarvan, County Waterford, the town closest to the well.

Gulf won't know until later this year whether it has a big well, but judging from the results of early tests, oil analysts guess that it could contain between 100 million and 200 million barrels. That isn't a superfind. Saudi Arabia has 170 billion barrels of proven reserves. But Gulf's strike could boost Celtic Sea exploration.

"We've got to prove it's a commercial find," cautions the Minister of State for Energy, Eddie Collins. Truth is, the shares are probably gushing faster than the oil. And so are public expectations. People in the pubs and shops already are hoping that Irish Prime Minister Garret Fitzgerald will ease up on the tax hikes imposed earlier this year in an effort to bring Ireland's balance of payments deficit and high \$5.9 billion foreign debt bill under control. A pint of stout now costs \$1.30, and some Irish workers pay 73 cents in income and social welfare taxes for every dollar they make. The average income tax rate in Ireland is 43%. Worse, half the fast-growing population is under 25, and unemployment is expected to jump from 13% to 16% next year.

Economists say the government must start cutting public spending to avert even more tax hikes, but this may be difficult when people think the oil will pay all the bills. Oil, as other countries have learned, is a mixed blessing. ■

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Profiles

By mixing show business, real estate and good taste, the brothers Ashkenazy have cut a wide swath in Los Angeles realty. Tomorrow, the world?

Real estate as theater

The Ashkenazy brothers, Severyn (left) and Arnold
"This requires music, and an orchestra, and lighting."



By Michael Cieply

TALL AND DARKLY handsome, Severyn Ashkenazy, 47, speaks grandly of the hotelier's art. "This is opera," he declares. "Anything else is probably mere theater." Pleased with his metaphor, the Polish-born proprietor of Beverly Hills' plush five-star hotel L'Ermitage elaborates: "This requires music, and an orchestra, and staging, and lighting, and makeup and a libretto. It is an all-encompassing form of real estate."

Such are the passions of Ashke-

nazy. With his bearded brother Arnold, 50, Ashkenazy is investing \$260 million to develop a 1,000-suite cluster of seven L'Ermitage-like hotels. The brothers are building not in Beverly Hills but in tattered West Hollywood, a bohemian strip where tire stores and warehouses mingle with the arty hangouts of Los Angeles' homosexual community. Six of those posh hotels are recycled apartment buildings whose value has been depressed by Los Angeles' rigid rent controls. The Ashkenazys are rebuilding one of them as a multicolored, 12-

story sculpture to be designed by the Israeli artist Jakob Agam.

But why, in a city where deluxe hotel occupancy rates have lately run 70%? Essentially because the brothers Ashkenazy understand that the real estate business today is, at least in part, show business. There may be too many hotels, but there aren't enough hotels with that touch of flash appealing to the modern affluent consumer. That's the Ashkenazy vision. And it works. In 20 years the Ashkenazys have turned a \$100,000 grubstake into an estimated \$300 million-plus worth of Los Angeles real estate and other properties, held jointly through their privately owned Ashkenazy Enterprises, Inc. They run a thriving barter company and a distinguished art gallery in Beverly Hills. Their private art collection includes 2,000 paintings, some as valuable as a \$1.2 million Van Gogh, acquired by Arnold only two months ago.

If those are the marks of great success, a touch of madness and a dash of drama have been at the root.

Sons of a Jewish chocolate distributor, the Ashkenazys in 1939 were dislodged from their native Tarnow (a Galician town of 50,000) by the invading Russian army. For a time they hid behind Russian lines. But soon they returned to German-occupied Tarnow, spending two years in the sub-basement of a Gentile home, with a cow, two goats and a handful of precious paintings salvaged by their father, an avid collector.

Resettled in Paris after the war, the Ashkenazys scooped up additional Impressionist and Postimpressionist masterpieces, then available for a song in Europe's war-shattered economy. According to the brothers, the bulk of those paintings were mistakenly sold off by a careless trustee in advance of the family's 1957 migration to Los Angeles. Father Izydore stoically invested the proceeds in a clothing manufacturing business. Arnold, meanwhile, studied agriculture at UCLA, while Severyn used \$100,000 of his father's money to prove an uncanny instinct for the nuances of Los Angeles real estate.

Building in the then-dormant Ambassador area just west of downtown, Ashkenazy developed compact apartments for singles, a potent but still undiscovered market in those days. Within two years, single renters made the 26-year-old Ashkenazy a millionaire. Within four, he abandoned the Ambassador area to seize upon a shrewdly perceived opportunity in West Hollywood, then a seedy buffer zone between Beverly Hills and Los

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Angeles proper.

West Hollywood—including the notorious Sunset Strip—was part hippie hangout, part hooker haven. "It was the whorehouse of the city. Not at all appetizing," says the fastidious Severyn. The Ashkenazys saw not the problems but the opportunities—flawed but potentially valuable property at a low \$5 to \$6 per square foot.

That land is worth roughly 10 times as much today because of the shrewd way the Ashkenazys developed it. The brothers developed some 46 apartment projects in the compact district. Such critical mass attracted new tenants, among them middle-class gays and arty habitués of the nearby Pacific Design Center. They, in turn, lent a touch of class to the area. What had once been rundown now became fashionably shabby. Severyn likes to refer to the area as "the

West Hollywood—including Sunset Strip—was part hippie hangout, part hooker haven. "The whorehouse of the city. Not at all appetizing," says Severyn.

Left Bank of Beverly Hills." The Ashkenazys claim—a bit hopefully—that West Hollywood has become a pocket of neighborhood charm, akin to San Francisco's North Beach or Manhattan's newly vibrant Upper West Side. Galleries and expensive shops now pepper the area. Loungers brave the smog in outdoor cafes, while free-spending New York visitors come to play in glitzy restaurants like Spago and Ma Maison.

But put that bit of theater on hold for a moment to ponder the further drama of L'Ermitage. Six years ago that lush hotel was planned as a small high-service apartment complex on the outer fringe of Beverly Hills. But why not add lights and staging—a tiny Paris-like front desk here, a private restaurant there? By designing a hotel without public areas, the Ashkenazys hoped to evade Beverly Hills' restrictive zoning regulations, while converting L'Ermitage into an immensely more profitable first-class inn.

Because there is a big touch of show biz in everything the brothers do, there is an element of gamble in their operations compared with those of more conventional realty men. Suffering from a bad case of opening-night jitters, the brothers reportedly offered to sell a 50% interest in the new hotel, then assessed at \$11 million, with a \$7 million first mortgage, for just \$2

million. Luckily, the would-be partner declined. L'Ermitage, with only 117 suites, has appreciated fourfold since 1977 by trading on its so-called intimacy. Absence of a lobby and convention rooms means no crowd of yokels to trouble rich and famous guests who pay an average tariff of \$236, plus tax, per night.

With an 80% occupancy rate—nearly 15 percentage points higher than downtown hotels—L'Ermitage alone yields \$10 million a year in revenues, with operating margins estimated at 25%. Credit that to hand-and-foot service, which three years ago plucked Mobil's coveted five-star rating from the long-established Beverly Wilshire. The brothers indulge in costly flourishes, like original French masterpieces in the upstairs restaurant and complimentary limousine service for guests. But in Severyn's judgment: "The hotel business has changed, and hoteliers have not realized it." He draws upon history. "The innkeepers used to give you their daughters, their wives. We are going back to being innkeepers."

Now that they have discovered and come to love the hotel business, the Ashkenazys plan to dress up their existing West Hollywood apartment buildings as hotels. There is an element of gamble here. Conversions of apartment buildings to hotels do not come cheap. Cost per suite is running about \$200,000, compared with about \$120,000 per deluxe room in the new Sheraton Grande in downtown Los Angeles. Moreover, the Ashkenazys are spending a staggering \$40 million to build the 200-suite Le Clarion from the ground up, a price tag that could dictate room rates of upwards of \$200 per night. And even the venturesome brothers pale at the potential cost of executing artist Agam's still unseen design for their flagship Le Mondrian. "Agam is certainly the best businessman among artists living today," says Arnold wryly, wincing at Agam's \$225,000 commission. "Let us hope he is proceeding sensibly."

Arnold himself is compounding risk by pursuing a pet plan to weave the new hotels—all within a ten-block area—into a colossal gallery of modern art. No less avid a collector than his father, he is gathering some 5,000 paintings from artists and dealers at a 50% discount. The plan: to hang four or five works in each suite, publish a catalog and sell to admiring guests at, say, \$1,000 a shot.

In such ways do the brothers turn their personal tastes to helping make a buck. Both studied fine arts and music at the prestigious French Conser-

vatory of Music in Paris. Severyn, married since 1973, is an opera addict. Bachelor Arnold haunts the symphony halls. Sybarites to the core, the pair have lined their respective Beverly Hills homes with contemporary and Postimpressionist oils only slightly more exquisite than the nouvelle cuisine dishes offered at L'Ermitage's private Cafe Russe. Severyn says, with a disingenuous shrug: "If I had no business interests, I would have become a first-class playboy."

The Ashkenazys claim that 70% of their project's needed financing is already secured. Chase Manhattan carries an \$18 million construction loan on Le Clarion, while an association of savings and loans has underwritten two of the conversions, one of which is already 84% full at a respectable \$105 per night. When pressed, however, AEI attorney Gary Nielsen admits that lenders have arranged for, but have not yet closed, loans on the \$30 million-plus Agam extravaganza.

The capital-hungry brothers dream of acquiring their own S&L. Last year California's \$3 billion (1982 assets) Financial Federation—by means of bitter litigation and merger with Great Western—rebuffed what appeared to be an Ashkenazy takeover attempt. The Ashkenazys, associates and friends, who vigorously deny having acted in concert, acquired 28% of Financial Federation without filing SEC disclosure documents.

The brothers' claim of innocence was upheld in a court decision now under appeal. Yet Severyn freely concedes that he hopes to merge AEI with an existing S&L of "decent size." Little wonder. Newly liberalized California law could turn that captive S&L into a private pot of gold by permitting it to pump as much as 100% of deposits—still federally insured—into self-sponsored development projects, though California's Department of Savings and Loans retains the right to curtail activity it considers "unsafe and unsound." Thus the Ashkenazys could use thrift money to fund their schemes without ever facing skeptical lenders.

Where could that lead? The brothers already hint of further hotel expansion in Palm Springs, Scottsdale, Ariz. and Toronto, and perhaps of a public offering next year for their envisioned L'Ermitage hotel group.

Of course, there is the possibility that the whole world may not be like Beverly Hills and West Hollywood. The Ashkenazys, who lack nothing in the way of self-confidence, may thus overreach themselves. Such things have happened before. ■

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Your Financial Future is NOW

by Edward T. O'Toole

The financial services industry, although only in its incipency, already has come closer to being completely consumer-driven than any other industry in U.S. economic history. And while there is no certainty about the future direction or destiny of this massive industry, one thing is certain: the consumer will continue to be in the driver's seat.

If all progress in human affairs results from a basic discontent with the status quo, then the consumer's decade of unhappiness in the Seventies readily explains the swift progress now being made toward the consolidation of previously fragmented services into a recognizable industry.

To put it simply, in the Seventies consumers got fed up.

- Fed up with a losing battle against inflation. For example, \$25,000 in constant dollars deposited in a passbook savings account in 1970 would have lost about \$6,000 in purchasing power—including the interest earned—by 1980.
- Fed up with the fears that plagued consumers of all ages: young people, fearful they would never be able to realize the great American dream of owning their own home; middle-aged people, fearful that they couldn't afford to put their kids through college; old people, fearfully watching their retirement savings melt away.
- Fed up with financial institutions that used their funds (demand deposits, for example) without compensating the depositors directly.

- Fed up with having to stand in line at financial institutions for the manual processing of transactions—even while the technology was available to land men on the moon.
- Fed up with the meagre cash-value buildup of such old standbys as whole life insurance.

It was the incessant increase in such multiple pressures for more than a decade that led to "the revolution in financial services" now under way in the Eighties.

It was a consumer-led revolt. It was average, hard-working taxpayers—paying more and getting less—who made unmistakably clear what they wanted:

- Higher rates of return from money-market accounts rather than low-yielding passbook accounts.
- If not one-stop financial markets, at least fewer-stop markets.
- The opportunity to run one's own investment portfolio without having to pay for such extras as research and other administrative and operational costs of the trading firm.
- Data-processing and communications systems designed to serve the user's interests—as well as the provider's.
- A different insurance strategy, one that would give policyholders the option of trading in whole life for term coverage in order to maximize the return on investable funds.

Consumer-driven: that's the genesis of the new financial services

industry. And consumer-driven it will be—and that could be a problem. For consumers may not know which way to turn in the stampede of new entrants rushing into the already crowded competitive arena before the inevitable shakeout—the shakeout that every new industry experiences as part of its growing pains.

The dimensions of the financial-services markets are immense. Potential users of these services have yearly personal income of \$2.7 trillion. They have more than \$6 trillion in personal financial assets. This year, Americans will be spending as much as \$300 billion for financial services. The bottom line for the service providers is expected to average 25% net, or about \$75 billion.

A 25% net from \$300 billion in gross revenues is bound to attract a crowd. At present, there are an estimated 7 million people on the sell side of an industry that serves, in the aggregate, about 100 million people. Most of the service providers are teamed up in some 70,000 institutions. They plan to spend each year at least \$3 billion to develop and promote their wares—and some estimates indicate this soon will be more than \$5 billion.

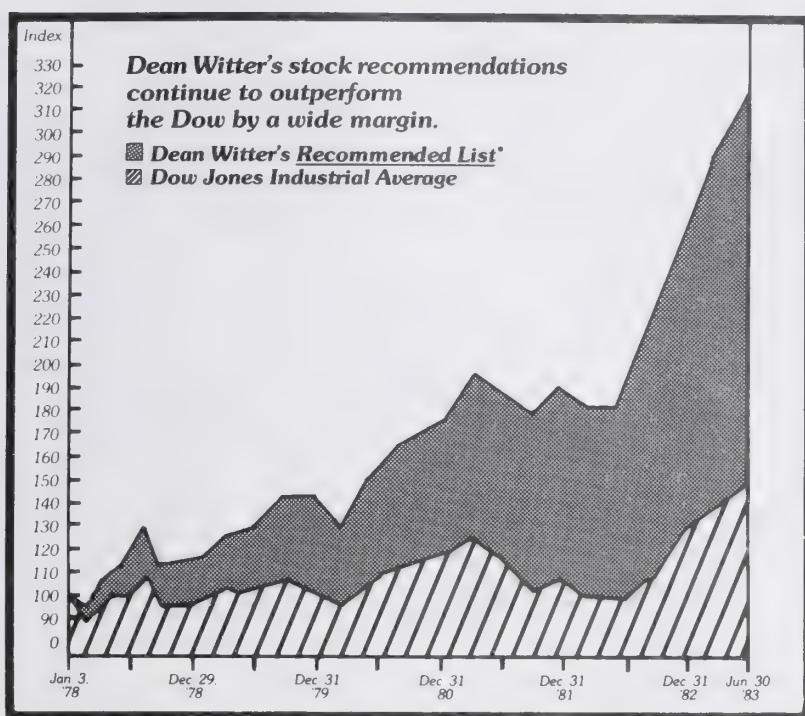
How to sort it all out and use it to best advantage in a time of changing economic tides and in the middle of radical alterations in the once-familiar financial markets?

First, the new shapes and structures comprising the new industry...

Second, how to make optimum use of the new consumer financial marketplace....

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Life used to be a lot simpler. You worked hard, saved your money, got married, bought a house and some stock, put your kids through college. Then you turned to your retirement nest egg...and lived happily ever after.

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only include a sensible budget, but a sensible use of investment assets as well. A Total Financial Planning program that could include stocks and bonds, options, and mutual funds as well as IRA or Keogh plans.

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There are many criteria for measuring success. One is disposable income. And as your disposable income increases, you'll want to maximize growth while keeping an eye on risk.

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New Shapes and Structures: The Supernovas

They're big, exciting and new. New in appearance and form or new in what they're doing. Or both.

A list of the Supernovas would include such combinations as Sears/Dean Witter, Prudential-Bache, and Shearson/American Express. It would also include such innovators with nationwide market networks as Merrill Lynch and E. F. Hutton, the two leading securities firms among the many Wall Street institutions that are rapidly expanding into all areas of the financial services industry.

Although the Supernovas are major factors in the new industry, the financial services markets are so large that no one organization has as much as 1% of the total action. This means that they see no anti-trust obstacles in their path to quantum expansion through sizable mergers with other financial institutions in the future.

Sears/Dean Witter

Sears, the largest retailer in the country, already was a major factor in financial services before acquiring Dean Witter Reynolds in October 1981.

In Allstate Insurance, Sears has built up the second largest property and casualty insurer with premiums of some \$6 billion.

When it bought Coldwell Banker in 1981, Sears acquired the largest residential and commercial real estate broker in the country.

In the fall of 1981, Sears bought the nation's fifth-largest investment firm for \$607 million, paying a sizable premium above the book value of Dean Witter Reynolds stock. Early on, the Wall Street jokesters had a field day with such nicknames for the combined companies as "Socks n' Stocks."

Dean Witter provides Sears with a full array of brokerage products and services to add to its catalog of financial services. The core account

is Dean Witter's Active Assets, a cash-management service that the company introduced in March of 1982.

In July of last year, Sears launched a pilot program consisting of eight financial centers in selected stores among its nationwide chain of more than 800 merchandising locations. These centers gave Sears' customers the opportunities not only to buy their stocks where they were buying their socks but also to sell a house and reinvest the proceeds in bonds. Or to buy a house and obtain insurance and mortgage financing in the same place.

Wall Street no longer regards the Sears one-stop financial centers as a laughing matter. One reason is that the Dean Witter staff in these centers now are opening accounts at a rate three or four times that of their peers elsewhere in the Dean Witter branch system. Another reason is that Sears lately has been adding to its one-stop system at an impressive rate. By the end of 1983, some 100 are expected to be in business, with 250 or more scheduled to be on stream by the end of 1984.

Prudential-Bache

An increasing number of the new financial conglomerates have indicated they intend to be all things to all customers in the financial marketplace. But some of the major institutions are concentrating their efforts on providing a complete personal service to a particular type of customer.

At Pru-Bache, the marketing strategy is to concentrate on consumers with a minimum income of \$50,000, and to provide this segment with "total financial planning," the theme of an all-out, nationwide promotional campaign now in progress.

Pru-Bache brings formidable resources to the competitive arena:

some 61,000 people, including a seasoned nationwide sales force; assets of \$77 billion; revenues of \$19 billion and net income of over \$2 billion. The merger of Prudential and Bache joined the largest insurance company with one of the largest securities firms, making available a complete range of insurance and investment products under one corporate roof.

Pru-Bache recently demonstrated it doesn't care whose roof it uses to cover its own business-development efforts. A new marketing strategy proposes that Pru-Bache lease space in commercial banks across the country and set up shop, splitting commissions with participating banks. Some of the big money-center banks were critical of a move they likened to inviting a fox in to share living space with the chickens. But a number of regional and community banks, interested in cutting overhead costs, have reacted positively.

Shearson/American Express

One of the most dynamic expansion programs in financial services has been that of American Express. If its newest acquisition jells, the purchase of Investors Diversified Services from Alleghany CORP., AmEx will cannonball into the middle-income, grass-roots market.

It was by no means an inexpensive move, even for an organization that has cash flow coming out of its ears as the result of a float of over \$2 billion from its sale of traveler's checks. The price tag of \$1 billion-plus on IDS raised AmEx's expenditures for financial service subsidiaries to almost \$2 billion in two years. The company had created an even bigger splash in the financial markets when it acquired Shearson Loeb Rhoades for almost \$1 billion in 1981, the biggest buck paid for an investment firm until the IDS deal on July 11.

Paying top dollar apparently is paying off. The financial services activities contributed nearly one-

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half of American Express' pretax income in the first quarter of 1983. The company has added to its reach and clout in the financial services marketplace through the acquisition in 1982 of two regional investment firms, Robinson Humphrey and Foster & Marshall.

Shearson/AmEx, the financial services flagship of the giant service conglomerate, is rapidly assembling a full range of consumer-oriented products designed to fill the needs and interests of all comers, blue-blooded and blue-collared alike.

Merrill Lynch

Anyone looking for the one institution that symbolizes innovation in the consumer financial marketplace need look no further than Merrill Lynch. Call it: We The People, The Thundering Herd or what-

ever, the most powerful catalyst in precipitating the many and rapid changes in the financial services industry has been the biggest investment bank/brokerage firm in the nation.

This year, Merrill will reach an historic milestone: the opening of its one-millionth Cash Management Account. For a new service that only got off the ground in 1977, it's an impressive performance. While other financial institutions have come up with similar accounts, CMA remains far and away Numero Uno in this area.

The CMA and its various imitations represent the first major step in packaging financial services to meet the consumer's interest in a way that suits his or her convenience. For a minimum initial investment of \$20,000, the Merrill Lynch customer gets an integrated

financial service that links together three components: (1) a conventional securities account; (2) a choice of three no-load money-market mutual funds; (3) an account that provides Visa debit card and check-writing services.

All activity in the CMA is delineated in a monthly statement. And although the \$20,000 opening balance is a firm requirement, it can be drawn down as the customer sees fit thereafter. Actually, the average balance on these umbrella accounts has been running at about \$77,000.

The Big Bull of Wall Street spares no effort to make sure its presence is known in all income levels of the investment markets and in all parts of the country. It has the longest product/service list of any securities firm, heavily asterisked with its own creations. It has the most extensive branch system, reaching into every state in the nation with one exception—Wyoming. (And it may be opening an office there in the not-too-distant-future.)

While the biggest financial services firm pays attention to the needs of the little investor, it by no means ignores the big investor. Merrill Lynch luncheon seminars for executives who make \$75,000—\$125,000 or more per year are being scheduled in major market areas. Although the invited executives are not charged for the seminar, there is, of course, no such thing as a free lunch. They hear a sales pitch on what Merrill Lynch can provide in the way of new tax shelter, how the firm can help them hedge against inflation and how they can select investments with the highest yields.

E. F. Hutton

One of the most underrated performers in the intensely competitive financial services arena, year in and year out, is an old-line Wall Street firm known chiefly for its silent advertising campaigns: "My broker is E. F. Hutton, and Hutton says...."

Hutton may be low-key compared

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WHO DOES WHAT

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Take Money/Pay Interest	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$				\$	\$	\$	\$	\$		\$	\$		\$		\$
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Life Insurance		\$	\$	\$	\$		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$			\$	\$	\$	\$	\$	\$		\$		\$	\$	\$
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Casualty Insurance		\$					\$	\$	\$	\$	\$		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		\$		\$		\$		\$	\$	\$
Mortgage Insurance								\$	\$		\$		\$	\$			\$	\$			\$	\$	\$		\$	\$	\$		\$		\$	\$
Real Estate		\$	\$				\$	\$	\$	\$	\$			\$		\$	\$	\$			\$	\$	\$		\$			\$		\$		
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Travel Agency/Service		\$												\$			\$				\$	\$										
Car Rental												\$	\$	\$			\$				\$	\$									\$	
Data Processing (General)		\$						\$													\$	\$					\$	\$	\$		\$	\$
Telecommunications	\$	\$						\$														\$						\$	\$	\$	\$	\$
Owns/Is Buying S & L	\$		\$	\$					\$			\$		\$								\$	\$	\$			\$					\$
Owns/Is Buying Bank	\$	\$	\$	\$		\$	\$	\$			\$	\$	\$			\$	\$					\$	\$									\$

Source: CITICORP

with some of its vociferous competitors but its bottom-line results in the financial markets are top drawer.

Witness:

- Profitable in each of the 79 years since its founding in 1904—meaning during the Great Depression as well as the years of great economic growth.
- Earnings per share in 1982 of \$4.33—compared with 79 cents in 1972.
- Compound annual earnings

growth of 38% over the last five years—among the very best for all securities firms.

- Return on equity averaging 26.3% for the past five years—the best single measure of the consistency of a company's performance.

Hutton has not been involved in any of the major mergers that made financial-news headlines in the Eighties. However, the firm has kept ahead of the consumer's changing

financial needs and interests. Each year it adds to a broad range of services and products that compares favorably with any other investment intermediary. Last year, for example, Hutton marketed a new package of open-end mutual funds especially designed for IRA and Keogh customers.

Currently, the firm is a recognized leader in providing financial planning programs to all income levels. It also is in the forefront of the institu-

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It takes \$2500 to open a Citibank money market account, and you have to keep that average monthly balance to earn money market rates.

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F-2

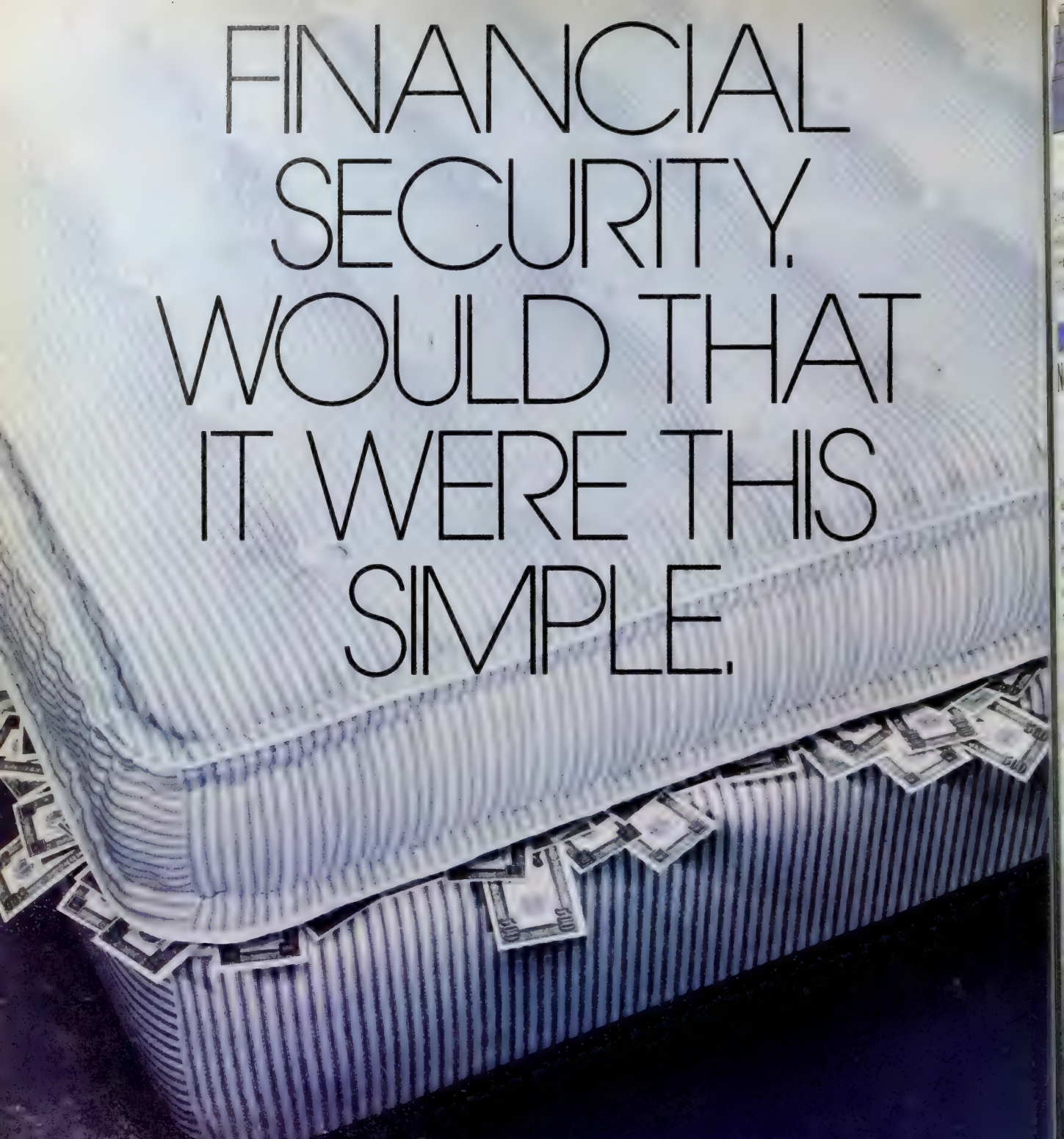
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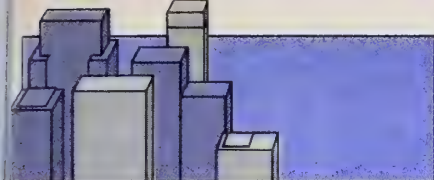
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tions offering a variety of tax-sheltered programs. Hutton sells about 100 separate limited partnership programs each year, more than any of its competitors.

II

New Shapes and Structures: The Mutual Funds

Not since the Swinging Sixties have the equity funds had it so good as in the past year. In fact, the mutual funds that were loaded with equities when the inflationary hurricane hit early in the Seventies had it downright bad until the stock market took off last August.

The life rafts that kept the mutual funds afloat through the Seventies were the money-market funds. Their assets reached a peak of \$260 billion last year before interest rates turned down, and before the depository institutions began to compete for money-market business last December.

The stunning ascent of the stock market during the past year also has drawn a significant chunk of investment money into the equity funds. In May of this year, mutual fund assets (excluding short-term funds) crossed the \$100 billion threshold for the first time. The \$101 billion total in May compared with \$55 billion a year ago, according to the Investment Company Institute.

In the money-market funds, the comparison was reversed—\$170 billion against \$201 billion a year ago. However, nobody believes the money-market funds will prove to be a flash in the pan. The total number of these accounts now is approaching 13 million. And with assets of \$170 billion, the money-market funds have almost 60% of the investment companies' total assets.

Consumers, obviously, want equity funds, bond funds and money-market funds. In fact, they want an even larger product-line to choose from when they put their funds in investment companies. And that's what the leading investment companies give them: multiple choice.

Why investors who know the market choose Fidelity Select Portfolios.

Fidelity Select Portfolios gives you an unusual opportunity to concentrate your investment in any of six exciting market sectors.

Compare the total returns of Fidelity Select Portfolios to the S&P 500¹ from July 1, 1982

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AT THAT
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¹ The Standard & Poor's Index, an unmanaged group of common stocks, is widely recognized as an index of stock market performance. ² Figures include the effect of the 2% sales charge.

Fidelity Select Portfolios	Life of Portfolio		Past 12 months ending 6/30/83
	7/14/81-6/30/83	12/10/81-6/30/83	
Technology	+ 162.8%		+ 156.9%
Precious Metals	+ 48.7		+ 154.1
Health Care	+ 109.8		+ 96.0
Energy	- 1.6		+ 39.6
Utilities		+ 28.5%	+ 26.7
Financial Services		+ 58.0	+ 65.6
S&P 500	+ 44.3	+ 46.7	+ 60.9

through June 30, 1983. You'll see that four of the Portfolios outperformed the S&P during the past year. These figures include dividends paid by the stocks in each Portfolio and any capital gains or losses.² Figures update those found in the Fund's prospectus.

One important reason Select Portfolios has performed so well is management by Fidelity's experienced sector specialists. Another is our extensive securities research department.

Of course, past results are no guarantee of future performance. And like any investment in stocks, Fidelity Select Portfolios can lose as well as gain.

**Call toll free.
1-800-225-6190.**

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Write to Fidelity Group
P.O. Box 832, Dept. JB 091283
82 Devonshire St., Boston, MA 02103
For a complete information kit, including management fees, expenses, and the Fund's 2% sales charge and 1% redemption fee, please write or call for a free prospectus. Read it carefully before you invest or send money.

Retirement Plan Information:

IRA ☐ Keogh ☐

Name

Address

City

State

Zip

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Announcing National Home Equity Corporation's Free Market System Auction

If you sell mortgages, or invest in mortgage-backed securities or mortgages directly, take a good look at these numbers:

The 143 banks, thrifts and mortgage bankers that are already a part of our network have a residential mortgage servicing portfolio of \$64,000,000,000.

Our sellers have 1,133 branch offices in 34 states.

We issued forward commitments totalling \$332,000,000 in the four month period which ended June 30, 1983.

We currently take delivery of and fund approximately \$4,000,000 in residential mortgage products daily.

National Home Equity Corporation is an independent mortgage conduit and master servicer which offers investors a variety of mortgage product originated and serviced by financial institutions throughout the country. Through our bi-weekly free market system auction to be initiated October 3, 1983, we offer sellers the ability to bid net yields

for mortgage loans to be delivered.

For information regarding National Home Equity Corporation or to participate in our free market system auction as a buyer or a seller, call or write us today.



National Home Equity Corporation
10920 Wilshire Boulevard, Suite 820
Los Angeles, California 90024
(213) 208-0400



The leading fund managers these days offer a broad variety of funds that constitute a marked departure from the old triangular mode of growth, income or capital appreciation. A typical product-line of one of the big investment companies would include funds with these objectives: aggressive growth, balanced, bond, growth, growth and income, income, limited maturity municipal bond, municipal bond, money market and options.

The investment company with the most funds is Fidelity, with 39 separate pools. In contrast to some of the other big money-management complexes, Fidelity until the last year or so concentrated almost all its efforts in the traditional mutual fund business. Recently, however, it has been expanding into other financial-service areas: a bank across the Massachusetts state line in Salem, New Hampshire; a cash-management vehicle for investors with a \$50,000 minimum income; and a new discount-brokerage service designed especially for several large New England insurance companies, adding to their already established discount brokerage for individuals.

T. Rowe Price, which has been in the mutual fund business for three decades, thus far has not shown any evidence of changing its traditional business. Currently, there are ten funds with assets in excess of \$8 billion flying the T. Rowe Price flag. The funds' assets are concentrated variously in small growth companies, major growth companies, natural resource producers, income-producing equities and marketable debt securities. In 1980, the Boston-based money manager added the T. Rowe Price International Fund to its flotilla. It already has over \$100 million in assets diversified across nine European and Pacific basin countries.

Dreyfus, with 19 funds and about \$19 billion in assets under management, raised the hackles on commercial banks and the regulating agencies with its recent acquisition of a small New Jersey

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bank. Under the aggressive leadership of Howard Stein, Dreyfus found a way around the Glass/Steagall barriers that preclude investment companies from acquiring commercial banks—and vice versa. Since the legal definition of a commercial bank is an institution that accepts deposits *and* makes commercial loans, Dreyfus said its acquisition in effect would be a “nonbank” since the New Jersey institution would cease its commercial-loan business. What Dreyfus wanted was a method of selling government-insured money-market accounts. Which it got—and which precipitated similar moves by other investment companies. And which further weakened such traditional barriers as Glass/Steagall.

Vanguard, with a score of funds of various kinds, is another successful innovator among the larger fund groups. Among its broad line of products are the Index Trust, one of the first to invest in *all* the stocks comprising the Standard & Poor's 500 index. Headquartered in Valley Forge, PA., Vanguard's first mutual fund offering was in 1958, the Windsor Fund with the dual objective of long-term growth of capital and income. Currently, Windsor is one of the biggest funds of its kind with assets well in excess of \$1 billion. Vanguard also has been a successful marketer of IRAs, with a special money-market fund designed for this market.

A major factor in the international-fund area is Templeton, which specializes in foreign securities. Templeton's combined assets are approaching \$1.5 billion, centered in three growth funds: Templeton Foreign Fund, Templeton Global Fund and Templeton World Fund.

In terms of total mutual fund assets under management, the largest organization in the investment company business is—not surprisingly—Merrill Lynch. Its mutual fund assets, given a big boost in the past five years by its money-market funds, are now nearing \$40 billion. Merrill Lynch has its brand on 33 funds.

Neuberger & Berman is another Wall Street firm prominently ranked for its mutual-fund business. Consistently among the top ten (as ranked by Forbes each year), its five funds specialize in long-term growth and income. Neuberger & Berman is one of the veteran mutual-fund marketers in the investment community, having started in the business in 1955.

If you are looking for a mutual fund that is tuned into the latest technological developments, you might consider Financial Programs. The newest fund of this investment group is World of Technology, Inc. with a portfolio of securities reflecting high technology companies worldwide.

A very useful tool kit for anyone interested in mutual funds as a basis for investments is the United Mutual Fund Selector. This publication (24 issues for \$75 annually) covers the whole list of some 500 mutual funds of all varieties. Besides reporting on their performance, UMF Selector

also includes periodic comparisons of their alpha and beta ratings—i.e., their performance vis à vis the market as a whole and other investment vehicles. In the 15 years since the Boston-based publication opened for business, it has built its circulation to about 13,000, and is currently expanding at a pace that parallels the rising interest in mutual funds generally.

Mutual funds keep closely tuned to demographic changes, especially population shifts. According to Don Spiro of Oppenheimer Management, “the fastest growing segment of the American public is the group now approaching retirement. As this happens, more and more people become concerned about how they will spend their golden years. We see our role expanding in answering the financial service needs of more demanding consumers—i.e., the people who will be looking to the specialist firms such as ours for guidance in selecting among the variety of investment vehicles.”

New Shapes and Structures: The Commercial Banks

What's this?—commercial banks are in the brokerage business?

And this?—brokerage firms are in commercial banking?

And this?—both the bankers and brokers are in insurance?

And also in real estate?

Those are some of the questions you might get from a Moscow-based American financial writer on returning to this country after a ten-year stint in Siberia for downgrading the ruble.

As recently as a decade ago, U.S. financial services were balkanized—banking for the banks, brokerage for the brokers, insurance for the insurers. And so on: a place for everything and everything in its place.

Now the lines of demarcation are all blurred. “You can't tell the players *with* a scorecard,” Citicorp Chairman Walter Wriston complains. The traditional functional restraints and

geographic restrictions that separated financial institutions are fast crumbling.

The latest new venture for the commercial banks is the cash-management account for individuals. The banks have been slow out of the gate with this one. They needed a new law to get into the business, and the legislators didn't oblige until last year. The banks are trailing the securities firms by about five years in this type of account.

A community bank like Barclays with a big spread (90 offices), mostly in the suburbs and exurbs, should be able to come up with a fair share of the cash-management market. Barclays has been lab-testing its new Asset Management Account. It's a cash-management number with all the bells and whistles of Merrill Lynch's prototype Cash Management Account (CMA), and one or two of its own attributes.

How to manage your money like a professional

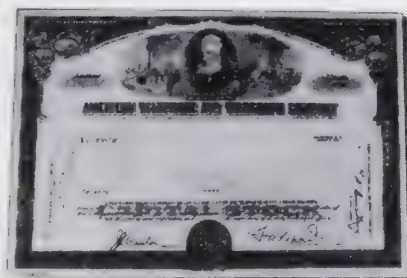
Great news from Barclays, one of the world's largest and most trusted banking groups—over \$80 billion in assets and 5,400 offices in 84 countries.

Professional money managers know that to stay ahead today, you need a high return on your money...flexible banking and brokerage services...and as much safety and liquidity as you can get. Now it's easier than ever to manage your money like a professional with Barclays Asset Management Account.

Your money works extra hard. With a Barclays Asset Management Account, all your cash deposits, dividends, interest—every dollar of idle cash is invested in a high-yielding money fund.

Moreover, when you pay bills with a check drawn on your Barclays Asset Management Account, you earn high yields until the very day your check clears.

Buying and selling securities through your Barclays Asset Management Account keeps your money working extra hard, too. Your Account Officer can place your orders almost instantly through a discount broker. Dividends and proceeds from securities sales are automatically invested in your money fund.

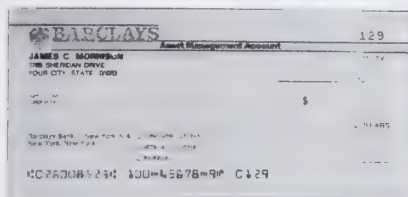


Barclays Asset Management Account gives you low-cost brokerage services. You'll get dramatic savings over full-cost brokerage rates.

Financial flexibility. Since you never know how the economy or your own situation may change, you need a service that frees you to do almost anything.

Need immediate cash? Simply write a check on your Barclays As-

set Management Account. There's no minimum withdrawal.



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In addition, you can apply for extremely flexible borrowing power—from margin loans to unsecured personal loans of up to \$15,000.



You can get to your money almost anywhere. Your VISA debit card is honored at 3,000,000 establishments in 152 countries.

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With one glance, you can compare this month's assets and liabilities with last month's. Keeping tabs on your net asset position couldn't be easier.

BARCLAYS

Page 1

Statement for

Period ending

at

Page 1 of 1

INCOME AND EXPENSES

HERE IS YOUR INCOME

INTEREST INCOME

DIVIDENDS INCOME

NET INCOME

MONTH TO DATE

\$ 12.34

\$ 5.67

\$ 17.91

YEAR TO DATE

\$ 123.45

\$ 56.78

\$ 180.23

HERE ARE YOUR EXPENSES

MONTHLY FEE

ADMINISTRATIVE CHARGES

NET EXPENSES

\$ 1.00

\$ 0.50

\$ 1.50

\$ 12.00

\$ 6.00

\$ 18.00

TAX DEDUCTIBLE EXPENSES

HERE ARE THE TAX DEDUCTIBLE EXPENSES

MONTHLY FEE

ADMINISTRATIVE CHARGES

NET EXPENSES

\$ 1.00

\$ 0.50

\$ 1.50

\$ 12.00

\$ 6.00

\$ 18.00

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For example, the opening minimum balance for the Barclays account is \$10,000, compared with \$20,000 for Merrill Lynch and \$25,000 for some of the other big securities firms. Barclays also says it has the most sophisticated, most useful monthly report for the service of any around. The bank's new account will be fully on stream this summer.

IV

New Shapes and Structures: The Insurers

Ask anyone to list the most dynamic competitors in the financial services markets and chances are the insurance companies will get a low rating. The competing institutions that sell them short, however, may be in for a surprise as this era of maturation for the financial services industry progresses.

Other "experts" have written off the insurers in the past. In the mid-Seventies, for example, the traditional life insurance companies were consigned to an early grave when group coverage and term policies threatened to overwhelm the whole-life concept. Instead, insurers like Equitable and John Hancock came up with new products such as variable and universal life, and increased their marketing thrust into other areas, including a broader variety of asset-management services.

As a result, the big insurers are in excellent condition to take advantage of the opportunities now available to expand the scope of their revenue-producing operations. Equitable has a formidable nationwide sales force of 9,000. They market a growing list of products for individual and family use, ranging from annuities and money-market funds to computerized estate analysis and a variety of IRA and Keogh Plans.

John Hancock has been building its money-management base, which now includes seven mutual funds with total assets of some \$2 billion

and more than 300,000 accounts. The insurance company also acquired last year the blue chip securities firm, Tucker Anthony, whose products the Hancock sales force will be marketing from now on.

Along with the monolithic mutuals, new combinations of insurers are now beginning to loom on the financial landscape. In 1982, Connecticut General and INA merged to become CIGNA. In setting up a new division, CIGNA Individual Financial Services, the new parent company made clear its intention of being a major factor in financial services as well as in insurance in the future.

However, CIGNA states firmly that it does *not* plan to turn its individual Financial Services division into a one-stop financial supermarket, nor does it intend to serve the same broad market as the Supernovas. Instead it will focus its marketing thrust on long-range, financial planning *for a fee*, primarily to owners of closely held businesses and individ-

uals with incomes in excess of \$100,000 and net worth of over \$1 million.

It's not only the primary insurers that will be lifted by the rising tide of financial services. Such middle-man firms as Frank B. Hall & Co., an insurance services organization that started out as a brokerage over a century ago, also is adding to its own product-line to meet the expanding needs of the insurance industry generally.

Based in Westchester, N.Y., the company still derives most of its revenues from brokerage. But it also has become a major factor in other areas of the worldwide insurance marketplace. Frank B. Hall & Co. now designs and places coverage, structures loss control programs, and when necessary develops plans for securing the human and financial resources of the global business community. Its revenues in the past two years have risen from \$312 million to \$364 million.

V

New Shapes and Structures: Niche Occupiers

The period of coalescence now shaping the new financial services industry will last at least a decade before the outlines of the homogenized financial markets begin to take form. To a major degree, the new technology will play a decisive role in determining the size and shape of the survivors of this decade of turbulent change. New businesses are now being built on new communications and high-tech concepts. As Jim Williams, president of the Credit Union National Association, recently said: "People will take terminals home, not briefcases."

Organizations like the credit unions will probably be among the most durable of those that occupy a special niche in financial services. The credit unions in total hold about \$96 billion in assets for their members—people who share a common bond of employment, profession, or some linkage. The many millions of consumers who comprise the mem-

bership of some 20,000 credit unions are among the most loyal depositors and borrowers in the financial-services spectrum. The credit unions have been in existence since 1934.

But even such durable fixtures as the credit unions are not immune to the need to keep in step with the changing times. They have been working assiduously to create such central financial institutions of their own as the U.S. Central Credit and Credit Union Internet. Both institutions employ the latest word in technology—i.e. electronic networks that provide integrated national financial and service-support systems (long-range planning, product development etc.) for the individual credit unions.

Other organizations that occupy vital niches in the various sectors of the financial marketplace include companies that have confined their efforts to such important areas as housing. In the U.S. economy, the

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trillion-dollar housing industry is recognized as "the key industry," as an "economic bellwether."

The current resurgence of housing is largely attributable to the vitality of the secondary mortgage market. This year, this market is expected to generate as much as 80 percent of the total \$160 billion in residential mortgage loans.

A mortgage bank like Lomas & Nettleton, which is the nation's largest, provides drive-wheel impetus to the housing industry. Based in Dallas, Lomas & Nettleton fills a key role that includes: (1) aiding developers in planning and financing new housing projects; (2) assisting home-buyers in obtaining mortgages; (3) acting as a conduit between mortgage originators and ultimate investors by packaging individual mortgages into marketable securities. Because of its continued success through economic recessions and recoveries alike, Lomas & Nettleton has become something of a star-performer in the stock market. It's currently selling at almost three times its book value.

A newer comer in the mortgage packaging line is National Home Equity. Although the company has only been in business since March of 1981, it presently is packaging and distributing conventional and adjustable rate mortgages at an annual rate of almost \$1 billion. Based in Los Angeles, National Home Equity has regional salesmen covering originators and investors in the East and Midwest as well as on the West Coast. Unlike Lomas & Nettleton, which occupies several niches in the housing industry, National Home Equity concentrates on its role as a conduit.

Great, you say. So there you are, the almighty consumer behind the wheel. There's one major problem—you're at a crossroads but all the once-familiar signposts have been changed. No more the simple directions: banking services this way, investment services that way, insurance services to the right, real estate to the left.

The new signposts are a confused jumble of directions. North, south, east, west—financial services of all kinds at all points of the compass.

Old roadmaps are useless. You

need a new one.

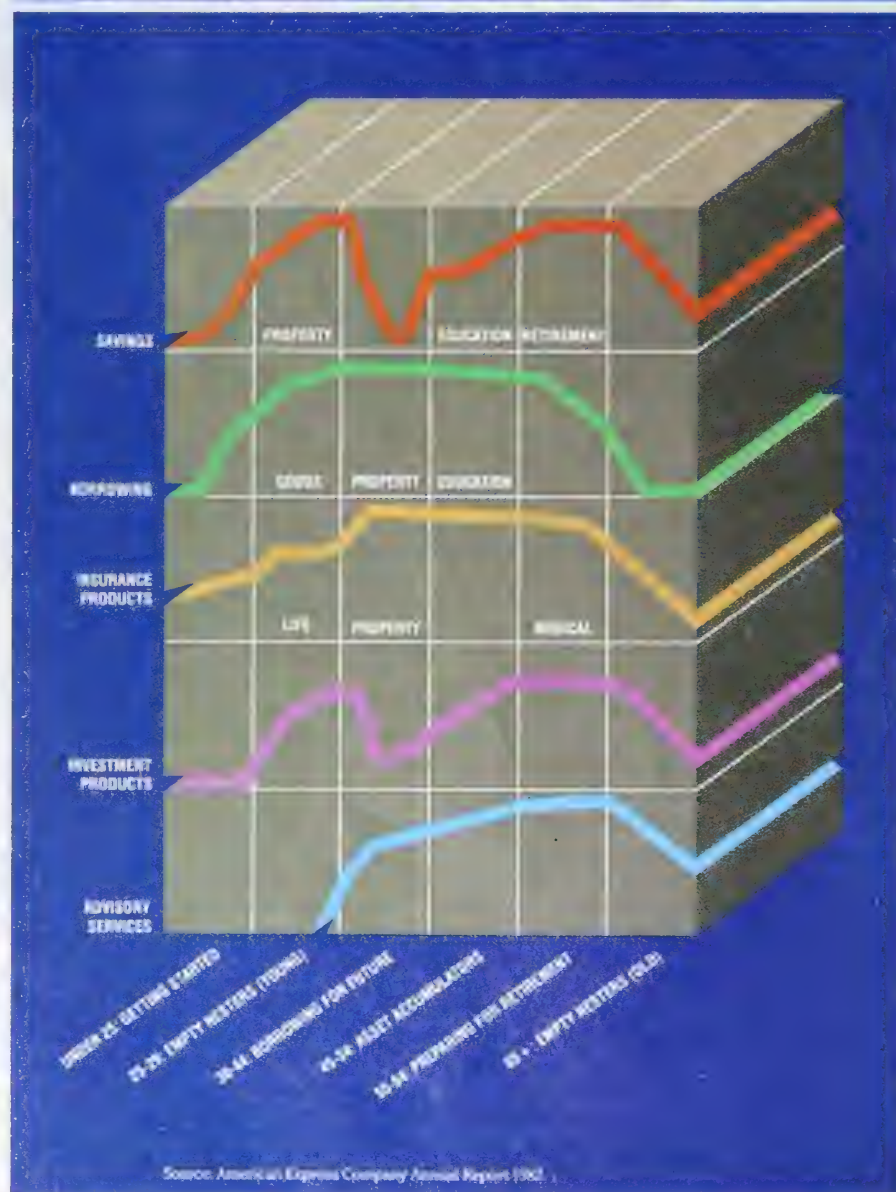
So how do you begin to prepare your roadmap?

Well, to begin at the beginning, who are you?

It's one thing to refer to financial service consumers as an amorphous mass of 100 million people. But you're an individual. One of your distinctive features is that right now you're of a certain age. That's where you begin, with the Life Cycle chart below.

Consumers in their 20s are just coming out of the egg—in the con-

CONSUMER FINANCIAL SERVICES LIFE CYCLE



The Consumer's Financial Services Roadmap

It is an idea whose time has come: the financial services industry. And wherever it goes, it will be consumer-driven.



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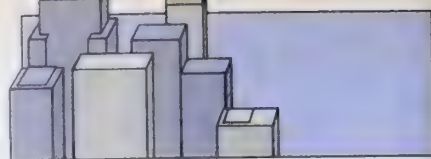
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text of the financial markets. They may or may not be producing significant income, may or may not be producing children. Let's assume both affirmatives: they are part of a young family and the family planning includes kids.

Consumers in this category make the common mistake of setting up a family budget. They assume this is for an adequate financial plan. They get involved with a microscope when their first need is for a telescope.

They need a telescope to look down the road and determine their long-term objectives. With kids, they'll probably want a house. Target date: six years from now when the kids have reached school age. Beyond that, twelve years or so later, they will have to cope with college education costs. Forty years from now, more or less, comes retirement.

All three such goals should be delineated on your roadmap. You know you'll need money to reach these main stops, just as though you were driving from the East Coast to the West Coast, with planned stops at Chicago, Denver and Salt Lake City. Your money needs on your life-trip would be the same as your fuel needs on a road trip.

Financial planning requires time, effort and, if you enlist professional help, money. But if you want financial security, you've got to begin planning for it, and you can't begin too early.

If you're a consumer in the 30-to-54 year-old bracket, you already have some miles behind you. If you're in the nearer end of this span, you already have some accumulated wisdom with respect to your credit and investment opportunities and requirements. You know by now that "savings" in the old-fashioned sense (passbook savings) is out the window. Putting surplus funds into a passbook account would be like putting oats into your gas tank.

If you have surplus cash, your imperative should be to *invest* it. The best avenue for immediate investment probably is through one of the new sweep accounts. Investment

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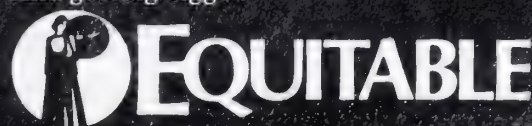
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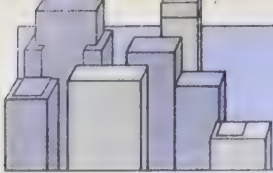
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firms call them cash-management or asset-management or something similar; the banks refer to them as MMDAs, Money Market Deposit Accounts. The banks and thrifts are newcomers to this business. Brokerage firms and other money managers (insurance companies, mutual funds, etc.) have been doing sweeps for years.

Your sweep decision should be an integral part of your overall financial plan. And your plan should reflect one basic decision about how you're going to handle your investments: on your own or with professional help.

If you decide to manage your own investments, then by all means consider the cost savings available in using a discount-brokerage service. The big banks are getting into this business right and left.

If you decide to go it alone, you'd better be damn sure you have the

savvy and the moves to compete with the professionals. You'd better be sure you know enough about what's going on so that you'll always be in a position, like the pros, to "sell on the news." The amateurs buy on the news; they buy what the pros are selling at the top.

Try defining a few of these investment vehicles to test your own professional competence: zero-coupon CDs, Tigers and Cats, index futures options, commodity partnerships, Clifford trusts, flower bonds, RANS-BANS-TANS, option hedging, bonds-cum-puts.... Had enough?

Instead of betting on yourself, maybe you should leave the driving to the pros who can put the ball 250 yards straight down the middle. Maybe it's worth what it costs to have a pro on your side—professional help with your financial planning, setting your investment goals, changing your investment directions as the economic road changes and your investment capacity improves.

Maybe the best way to decide whether you want to follow a do-it-yourself investment program or pay an institution to do it for you is to try both ways. When you've accumulated a lump sum of surplus funds, try managing half of it yourself. Give the other half to a money-manager. After a couple of years, see where you stand. You can get a highly definitive look at your own talents as a money-manager if you use the discount brokerage service of a commercial bank—which is all the bank (or thrift) is legally entitled to offer. It means you'll have to do your own research yourself. It's unlikely that the average young investor will have sufficient time (or funds, probably) to try this experiment in a meaningful way. But later on, as you move along the life cycle, you may want to give do-it-yourself a go.

The upper-age brackets of the life cycle include the 55-64 preretirement decade followed by the post-retirement years. The Chart in the 55-64 bracket is future-oriented. It's idealistic, for example, in picturing

the consumer's investment potential and retirement-savings at their peaks.

Anyone in the 55-64 age bracket *today* knows that this just doesn't square with *today's* reality. Incessant inflation in the Seventies has drastically eroded older consumers' financial bases. Their personal assets have shrunk to dangerously skimpy levels.

For millions of consumers in their postretirement years, this period of their lives now shapes up as the most painful, the most uncertain. They see their reliance on Social Security as a main source of financial support as wishful thinking. Such retirement relief measures as the IRA and Keogh programs arrived too late to do them any good.

In this increasingly complicated life, in this world of increasingly complicated financial problems, something more than just being wise is needed.

It's being wise in time that counts. It may be too late for older people to plan now for their future financial security. It certainly isn't too early for young people.

You, the average consumer, *are* in the driver's seat. It's the directions in which you decide to move that will set the directions for the financial services industry.

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About the Author

Ed O'Toole has been a financial writer, editor and communications consultant for more than 25 years.

In the sixties, Mr O'Toole covered the money market, stock market and international financial markets as a reporter and foreign correspondent for The New York Times. In the seventies, he wrote extensively on consumer finance as a columnist syndicated by the Washington Post, and as a frequent contributor to major business publications. In the eighties, Edward T. O'Toole Associates provides communications counseling to financial services organizations. His books include: "The New World of Banking," "How To Gain Financial Independence," and "Opportunities In The Securities Industry."

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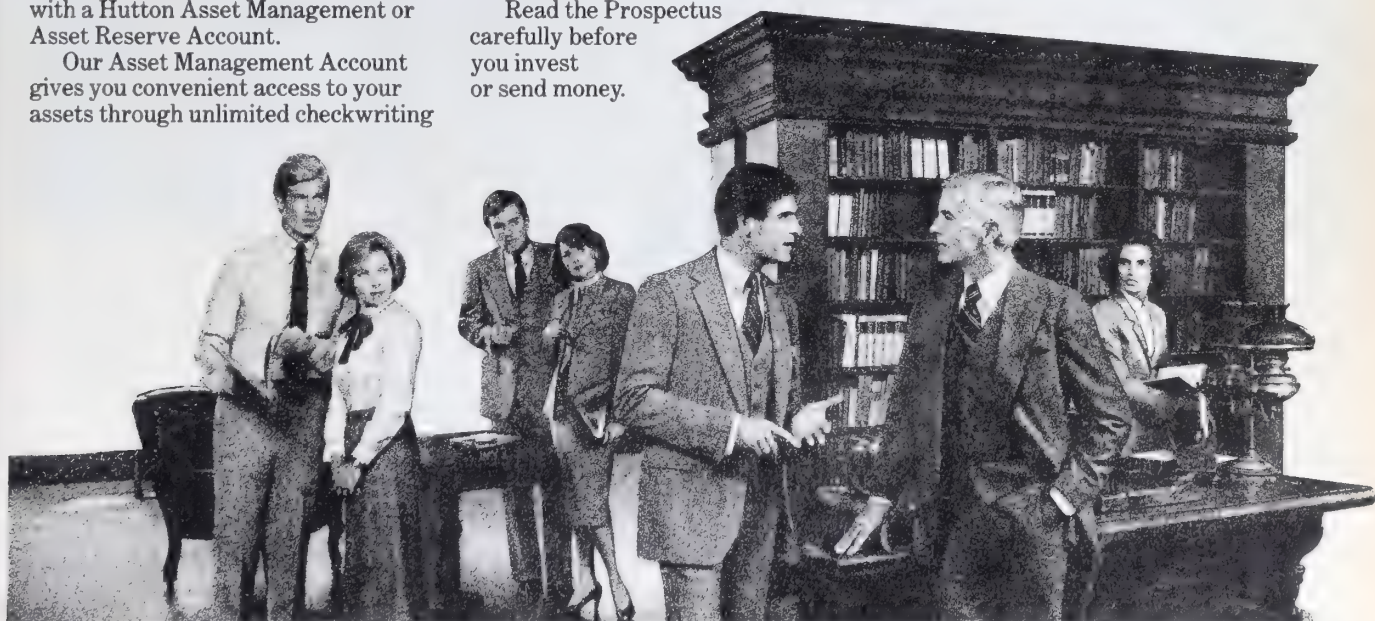
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When E.F. Hutton talks, people listen.

Run-for-profit U.S. hospital companies are working to carve a niche in Britain. That's hard work, when the competition, socialized medicine, beats you on price.

Why pay more?

By Rosemary Brady

INSIDE THE POSH Humana Wellington Hospital in London's St. John's Wood, nearly all of the 250 beds are filled. "Business is brisk," says medical liaison adviser Ron Barker, showing off a bright, balconied hospital room, which is priced at \$320 per day. "But we are lucky. It's not the same in all private hospitals," says Barker.

Indeed, it isn't. American Medical International, which has invested more than \$100 million in nine hospitals in Britain, recently closed a ward and cut back staff at its new Chaucer Hospital in Canterbury. "It is a rural area, and we were in a startup situation," says AMI's European development director, Humphrey Nichols. "It was difficult to judge demand." In the Hospital Corp. of America's six small hospitals, purchased last year for \$22 million, occupancy rates are only 60% to 65%. "We are still feeling our way," says Art Ouellette, managing director of HCA's U.K. subsidiary. "Patients aren't beating the doors down."

What makes American run-for-profit hospitals think they can do business in a country where 93% of the people use state-owned hospitals and state-paid doctors for free health care? A few years ago prospects actually looked good. Then, after a health work-

ers' strike added thousands of people to Britain's already lengthy National Health Service hospital waiting lists, individuals and companies rushed in a much-touted boom to buy private health insurance. IBM and Rank Xerox signed on all their employees. Even a few unions opted for the luxu-

ry of private health care. By 1982, 4.2 million people were covered by private health insurance, an increase of 30% from 1979, and a hospital building spree was under way. Now these hospitals, financed by British and Middle Eastern investors as well as U.S. companies, are opening, but the growth in privately insured patients has slowed to a halting 3% to 5%. The invaders probably can survive, but the market isn't nearly as good as it appeared to the Americans just a few years ago.

HCA's Ouellette sees a shakeout: "I don't know where all the patients will come from. I don't know where all the money will come from." His company, he says, would make a better current return by investing its money in stocks and bonds, but still believes that over the long term the investment will pay.

The other two big American players, Humana and AMI, echo Ouellette's view. For the immediate future, they say, the soft market—especially on top of their recent capital expenditures—will depress returns.

But Britain, like the U.S., is thinking hard about the future of its health care system. And that system, say the American managers, is bound to include an expanded private industry.

"The NHS is deteriorating," says Humana Medical Director Dr. Arthur Levin, a British doctor who founded the Wellington Hospital two years before Humana bought it. Although the clinical treatment in the giant National Health Service is still good, Levin says, conditions in some hospitals are appalling. Elderly patients must wait up to five years for admission to undergo a hip replacement operation. Patients sometimes share a room with 20 other patients. "My feeling is that the NHS will contract and become more efficient," says Levin. The government will encourage a strong private sector to work with the NHS, he predicts.

As in the U.S., Britain is trying to tackle health costs that have swung out of control over the last decade. The NHS budget jumped from \$3.7 billion in 1970 to \$24.7 billion in 1983. Prime Minister Mar-



Art Ouellette, managing director of HCA's English subsidiary
"I don't know where all the patients will come from."

"I have an idea..."



"A word of caution..."



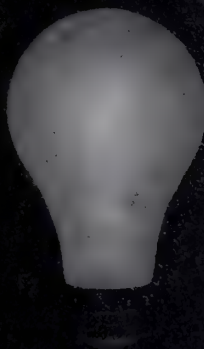
"A little too radical..."



"I like it myself, but..."



"We tried something just like that once..."



"Let me play devil's advocate..."



"It's just not us..."



"I wish it were that easy..."



"Oh, it was just an idea..."

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garet Thatcher has recently slashed this year's NHS hospital budget by \$220 million, called for “greater efficiency” and urged increased cooperation between the NHS and private hospitals. Her pleas are not far from the U.S. government's calls for hospital cost containment.

The market for private health has completely changed since AMI bought its first clinic on London's Harley Street in 1970 and Humana purchased the Wellington Hospital in 1976. Until the late 1970s more than 80% of the patients in these hospitals came from outside Britain, mostly the Middle East. Now more than 50% of the patients are British, says Humana Executive Director Bruce MacLeod.

AMI and HCA now aim to attract patients and doctors in small towns

“The National Health Service is deteriorating,” says Dr. Arthur Levin. The elderly wait five years for hip replacement, yet costs soar. Predicts Art Ouellette of HCA: “Unless we can contain costs, the private health industry will price itself out of the market.”

and cities outside London. Since 1979 AMI has opened six big hospitals—complete with advanced equipment for brain and cardiac surgery and including one of Britain's few whole-body scanners. It has also begun building a fifth new hospital in Glasgow, Scotland. HCA has started a \$10 million community hospital in the coastal town of Southampton in south England and has bought five small, 30-bed hospitals where patients go for minor operations.

Pricing, says Ouellette, is crucial to the success of these community ventures. While London hospitals, squeezed by high costs, can simply charge more and expect wealthy patients to pay, patients in the country towns will not “top off” their insurance policies, he says. Unlike the U.S., he says, the insurance associations and private hospitals in Britain haven't found a mechanism for determining fair insurance rates based on real hospital costs. The insurers also haven't developed a variety of policies to lure customers into private health and to sustain the earlier growth. Ouellette's warning sounds familiar: “Unless we can contain costs and provide a service that is affordable, the private health industry will price itself out of the market.” ■

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And it is virtually identical in design to the engine that powers the Mercedes-Benz 300 D Turbodiesel Sedan.

Unsurprisingly, perhaps, there is no more powerful automotive diesel or turbodiesel engine offered today. At last, the kind of power and performance that has been exhilarating drivers since the dawn of the automotive age—engineered into a diesel.

The thinking man's kind of performance

Meanwhile, the 300 D's bravura performance is unlikely to exact typical performance-car running costs. As a diesel, it could push your fuel costs per 5,000 miles well under \$200, based on average current \$1.20 per gallon diesel fuel prices and a 33 mpg highway mileage figure. (City mpg 27 EPA.)**

And as a Mercedes-Benz, it shares a name so coveted by American buyers that after the first three years, the 300 D has been shown to retain 85 percent of its original value.

At \$31,000, the 300 D is more than a performance sedan.

It is the thinking man's performance sedan.

Hurting through the labyrinth

Exhilarating as it may be, the 300 D's performance is primarily meant to help you cope with modern driving life.

Example: Behind the factory walls, a Mercedes-Benz test driver hurtles a 300 D at frightful speed through a labyrinth of zigzag pylon curves. Frolic is not on his mind. He is demonstrating that the suspension system of the 3,585-lb. sedan is tight and firm enough to handle the sudden, heart-in-the-mouth evasive moves that every driver sooner or later confronts.

It is for this same reason that the power-assisted steering system exhibits a near obsession with exactitude. It is quick, clean, crisp; no power-steering sluggishness.

Brakes are not discs in front and drums at the rear but discs, discs, discs, discs.

The 300 D's automatic transmission is a four-speed, torque converter unit capable of making shifts a millisecond faster and more efficiently than the canniest human hand. But it is so nicely placed—down by your right side, a flick of the wrist away—and so precise in action, that you may find manual shifting irresistible.

Well-groomed ride

You will not find yourself gritting your teeth over every bump in the road. A beautifully controlled and supple ride is one benefit of the 300 D's fully independent suspension system, augmented by ultrasensitive dual-chambered

oil/gas shock absorbers, and with front and rear anti-sway bars integrated into its design.

The 300 D's cabin affords almost 100 cubic feet of interior volume within a wheelbase of well under 10 feet. Five adults can enter unafraid of cramps or claustrophobia.

One of its more elaborately engineered elements is the seats. The driver's seat, for example, is a 58-lb. biomechanical support system, built on a foundation of steel coil springs under a sandwich of five padded layers.

You may not opt to buy a single extra-cost option, for the best of reasons: you may not need to. From automatic climate control to electronic cruise control, from a central vacuum locking system to a four-speaker cabin stereo system, from electric window lifts and heated rear window and almost ad infinitum—useful conveniences are everywhere. And everywhere standard.

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Dreams of glory

By James Cook

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Ralph Hofstad and the newest Land O'Lakes national product
Under its quality label, a string of 15 to 18 new foods.

Certainly ever since Hofstad, now 59, took over as chief executive in 1974, Land O'Lakes has been displaying its ambitions. In the past decade its sales have gone from \$935 million to \$3.8 billion, so that it now probably ranks third or fourth among U.S. farm cooperatives, with Sunkist and Ocean Spray Cranberries among its smaller coreligionists. Its profits, however, are another matter. After climbing from \$15 million in 1973 to \$49 million in 1980, they plunged last year to \$19 million in the red.

What went wrong? The same thing that went wrong with much of American industry: too much expansion too fast, and too much debt. Where Land O'Lakes expanded in areas it was familiar with, it did well. In things like meatpacking and oil refining, however, it lost its shirt.

Land O'Lakes started out 62 years ago as a dairy cooperative and committed itself to adding value to the dairy products produced by its members. Its most familiar product—the justly renowned Land O'Lakes butter—has remained the U.S. premium brand for a half-century and continues to gain ground, though butter consumption itself has declined because of price, health worries and margarine competition.

Ralph Hofstad isn't a dairy farmer, however, and never was, and it's no accident that Land O'Lakes has diversified widely under his leadership. He's a Northwestern University economics graduate, and he came to Land O'Lakes as president of Felco—a feed, seed, petroleum, fertilizer and soybean processing cooperative—which Land O'Lakes merged with in 1970. When the Land O'Lakes board picked Hofstad for the presidency in 1974, he accepted with the understanding that Land O'Lakes was going to go beyond dairy goods. That meant not only butter, cheese and other milk products but also turkey and ultimately pork and beef.

The Felco merger had already put Land O'Lakes into farm supplies and marketing, with the result that food products are now only a third of sales these days. Another third comes from the agricultural services division, and the rest from the commodity division, which markets farm commodities and sometimes processes them into raw products like soy oil and meal.

And thereby hangs the story both of Land O'Lakes' growth and its subsequent fall from grace. Like many other cooperatives, Land O'Lakes began to spread out in the early Seventies because greater size afforded economies of scale and because you needed

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FROM SHARP MINDS
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to be big to compete with giants like Kraft and Borden, Cargill and Archer-Daniels-Midland. Hofstad's most adventurous acquisition was his first: Spencer Foods, then the U.S.'s seventeenth-largest meatpacker, which he acquired for about \$14 million in cash in 1978. But, as Hofstad explains, a number of Land O'Lakes' mergers were not quite at arm's length. Many of the company's farmer-owners are members of several different coops, so that when two other coops, Midland Cooperatives and Dawson Mills, got into trouble, Land O'Lakes' members were happy to help them pull their chestnuts from the fire.

This chestnut-pulling helped account for Land O'Lakes' sudden plunge into unprofitability. Dawson's plant-closing costs clipped \$11 million from earnings in 1981, and last year Land O'Lakes took a bath in both fertilizer and beef. Hence, 1981's underpar \$13 million profit and 1982's \$19 million loss.

But things are better now, chiefly because Hofstad is making progress in solving many of the problems he rashly took on. To compete in soybeans with the likes of Cargill and ADM, Land O'Lakes joined with the Farmland Industries and Boone Valley coops in forming a new processing coop of their own, with seven plants, \$165 million in assets and prospective sales in excess of \$1 billion. The resulting economies should add 5 cents a bushel to the profit of 10 cents to 15 cents a bushel the farmers normally make. "That's gravy street," Hofstad says, "because a lot of volume goes through those plants."

On the farm supply side, the economies resulting from putting Midland's and Land O'Lakes' supply businesses together saved \$4 million last year, and will save a prospective \$5 million to \$7 million this year, with perhaps as much as \$10 million next.

Spencer Beef was another matter. In June Hofstad agreed to sell Spencer to Cargill's Excel subsidiary (formerly called MBPXL) at what he calls a "significant capital gain." The result is that Land O'Lakes' sales will drop by \$1 billion or so this year, but its earnings should swing \$10 million to \$15 million into the black.

Meanwhile, the food division is growing but running into sizable expansion costs. Hofstad hired a marketing man from Procter & Gamble, set up a national distribution network and began to expand the Land O'Lakes family of products for both retail and food service markets. He hopes to piggyback the new products on Land O'Lakes' quality image.

In rapid succession, Land O'Lakes introduced a number of new products. It came out of the closet and really began to promote its margarine for the first time, and then went one better with a pioneering 60% corn oil and 40% butter combination under the

The myth and the facts

The farmer figured he was being shortchanged and the cooperative movement was an effort to alter that. As Land O'Lakes boss Ralph Hofstad puts it: "They didn't feel they were getting fair weight, fair prices, fair anything."

In the end, the coops discovered they had to price and buy and sell just like everybody else, but there is no question the idea caught on. Marketing coops like Sunkist and Ocean Spray Cranberries and supply coops like Agway emerged as major forces in the U.S. economy. These days cooperatives market 30% of all U.S. agricultural commodities: 41% of all raisins, 70% of all milk, 92% of all cranberries.

The big national coops like Sunkist, Land O'Lakes and Ocean Spray Cranberries are owned by individual farmers and by local farm coops, and the farmer shares in the profits, if there are any, according to how much he buys from the coop or how much he sells through it. The coops are required by law to distribute all of these earnings to their members, who in turn pay the requisite income taxes, and they're required to distribute at least 20% of those earnings in cash. The rest can be made up of shares of stock of equivalent value. But distributed or not, the profits are the key.

Without them, how do you expand, how do you modernize, how do you keep up? That's why Land O'Lakes assigns part of its earnings to surplus. Hofstad explains: "As we become more sophisticated in more of these businesses, we've got a lot of risk. And we've got to build reserves for those risks."

In short, profits aren't a ripoff of the consumer, the farmer and the worker, as the original cooperative people believed. Without a surplus, in fact, no organization can thrive.—J.C.

name of Country Morning Blend. Altogether, Hofstad has introduced 15 to 18 new products in the past several years, including such successes as 4-Quart Deli Cheese, corn oil margarine, frozen turkey breasts, patties and thighs, among others.

"Land O'Lakes is the gold standard in dairy products," say Richard Fogg, who brings Amfac marketing experience to the Land O'Lakes food division he now heads, "and women play that back to us."

Under Fogg, Land O'Lakes is going national with two major new products, both of which look like sure winners: Spoonery Cheese, a spoonable cooking cheese that can be spread like butter; and Pour-A-Quiche, a frozen quiche mixture that a quiche lover can thaw, pour into a pie shell and bake. "It's an ideal product," Fogg says. "It uses members' cheese, milk, cream, the whole thing."

Where Land O'Lakes can't see its way clear to developing new products on its own, Hofstad is prepared to joint-venture with others. It did this last year with Imark Industries, a Chicago holding company, in forming Lea Foods to distribute Schweigert sausage and lunch meats and Land O'Lakes turkey products, from a joint manufacturing plant. Hofstad would clearly not be averse to more such ventures, even joining forces with some of his giant competitors: He recalls that it was Kraft that originally positioned Pillsbury's refrigerator products in the stores.

"In retrospect," says Hofstad, "it's easy to say we moved too fast and took on too much."

He can say that again. In expanding, Land O'Lakes took on \$91 million in additional debt, and in so doing ballooned its own long-term debt ratio from a relatively conservative 55% to 87%. And though Hofstad has since cut Land O'Lakes' debt ratio to 65%, he won't feel comfortable until he gets back to 50%. And with reason. Standard & Poor's last month downgraded Land O'Lakes' senior debt and its commercial paper.

What worried S&P's as much as anything was Energy Cooperative, Inc., an oil refinery Land O'Lakes bought with six other cooperatives in 1976. Deregulation bankrupted ECI in 1981, and Land O'Lakes wrote off its \$10 million investment, but ECI's creditors are suing for hundreds of millions, and Land O'Lakes and its coventurers could conceivably be held liable.

Expansion-itis is a painful disease, and the symptoms are extremely long lasting. ■

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On land and sea,
when E.F. Hutton talks, people listen.

Western Electric's earnings may be dramatically lower its first year after the breakup of AT&T. Here's why.

Is it a wrong number?

By Laura Saunders

SAYS Comptroller Kenneth Easter: "Western Electric is probably switching to LIFO for at least a part, and maybe all, of its inventories." Does that matter? You bet it does. The probable switch involves a jolt to AT&T's future earnings that could figure in the hundreds of millions of dollars. The jolt could hurt AT&T in the stock market. On the positive side, the change may also bring major increases in cash flow.

LIFO, of course, stands for last in, first out, and is a method of accounting for inventories. It allows a firm to assume that the most recent goods manufactured are the most recent ones sold. FIFO (first in, first out), by contrast, assumes that you are selling the oldest goods first.

In times of high inflation the difference between these two methods can be major. Let's say you have two years' worth of inventory in your warehouse. You sell widgets today for \$10. But are you selling the ones that cost you \$9 to make last week or are you selling the ones you made two years ago that cost you \$5 to make? If you claim you are selling the more recently manufactured ones, with higher related costs (last in, first out), reported earnings go down. But so do taxes. Result: higher cash flow.

While no one will part with exact estimates, Easter is willing to say that for Western Electric the change could bring in "tens of millions

additional cash flow annually. Prior to the divestiture, of course, Western made up only 5% of AT&T's total income. After the spinoff is complete early next year, it will probably make up 30%. As a result, such a major change in Western is important to the company as a whole.

But though Western Electric will get this cash flow bonus for years to come, the first year on the new system is always painful. Investors are

frequently thrown off by a sudden decline in earnings that results from a change to LIFO. This has nothing to do with a company's operations, but it can be alarming to shareholders.

How big will the earnings drop be at Western Electric? No one at AT&T is willing to discuss the matter, but with inventory at its current \$3 billion level and an inflation rate of 5%, the figure could approach \$150 million pretax, according to calculations provided by Lawrence Portnoy, at Price Waterhouse. If inflation is higher than 5% in 1984, the first year Western will probably be on LIFO, then the cost of the change will go up accordingly.

For example, when Du Pont switched to LIFO in 1974, general inflation was running at 11%. The change reduced the company's pretax earnings by \$360 million, and aftertax earnings per share fell from \$11.22 to \$8.20. The effect at Western Electric could be similar. Analysts estimate its 1984 pretax earnings at \$1.3 billion. So the LIFO impact of Portnoy's calculations could easily amount to a 10% decline.

Such considerations may have helped keep Western Electric on FIFO in the past. But something else was important, too. Easter explains that, as long as AT&T owned its operating companies, there were other deferred taxes the firm could take advantage of that made the switch to LIFO less imperative. Now that the operating companies are being spun off, changing inventory methods makes sense.

The change, however, puts Western in conflict with many of its competitors. Firms like ITT, Harris Corp. and Rolm Corp. do not use LIFO. They argue that it poses unnecessary risks in the volatile electronics business—where the cost of inventories is often as likely to go down as up.

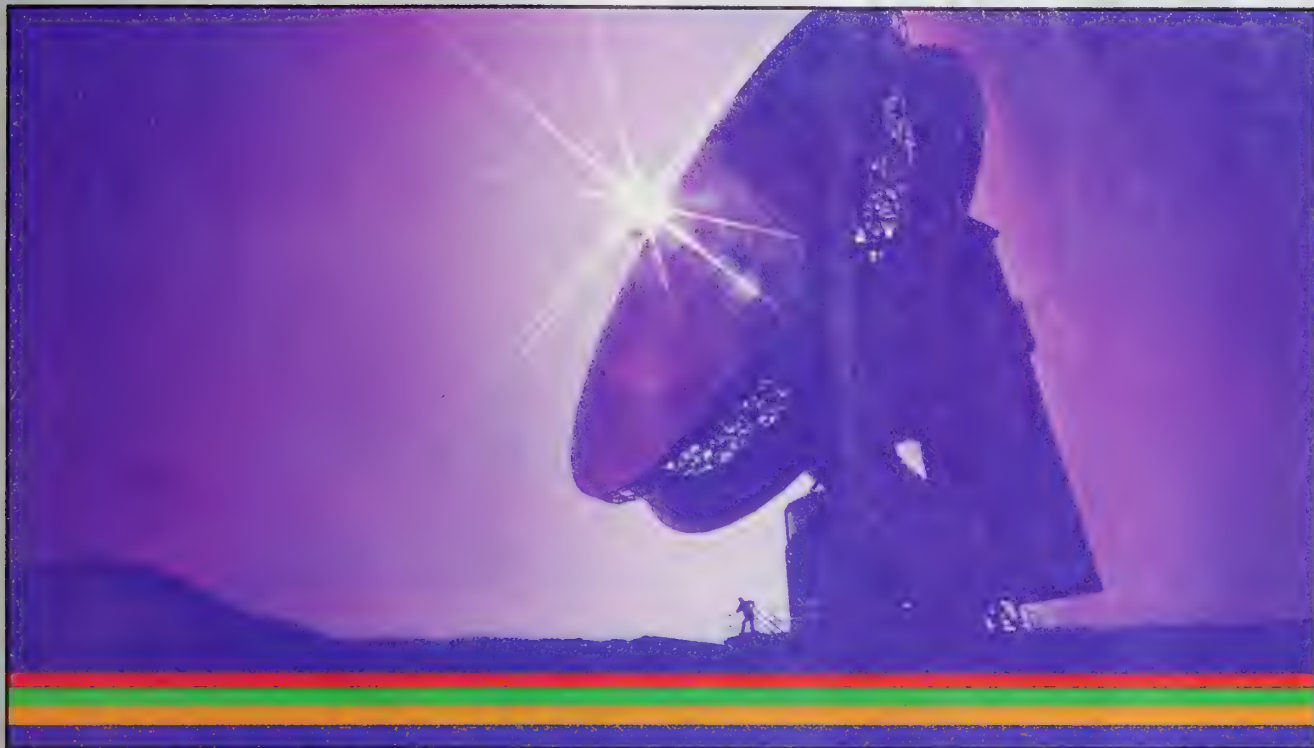
Officials at Western accept that argument to a point: Easter says that the company may keep those product lines most likely to suffer inventory price declines on FIFO. That may be, but because of Western's use of LIFO elsewhere, its margins will probably appear slimmer than those of other firms.

Will shareholders understand what is going on? Much depends on how well the company prepares them for the change. ■



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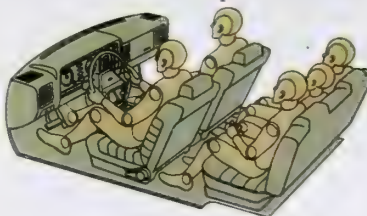


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Here's a low-risk, high-reward, nearly fool-proof stock strategy. It works very nicely for this Texas billionaire family.

Does it work for mere mortals, too?

By William Baldwin

SCARCELY A MONTH GOES by without a filing at the Securities & Exchange Commission by the Bass brothers of Ft. Worth. One or several of their holding companies has taken a million-dollar position in this or that convertible preferred stock and sold short the related common.

The Basses have to file only when they get past 5% of a stock issue, so what you see is probably the tip of their iceberg. What are these cagey, press-shy billionaires up to?

It's a low-risk, high-reward version of arbitrage—the simultaneous buying and selling of similar securities to take advantage of price disparities. For a professional trader, arbitrage can be quite profitable. For the Bass family—patriarch Perry, 68, and sons Sid, 40, Edward, 38, Robert, 35, and Lee, 27—arbitrage with preferred stocks has tax benefits, too. Naturally, they worry about taxes. Wouldn't you, if you collected royalties from at least 73 oil producers, had undeveloped oil and gas leases in 21 states, and owned 2 carbon-black plants, 5 gas-processing plants, herds of cattle, large stakes in 5 public companies and at least 15 hotels? The convertible arbitrage is just a sideline, but it is especially attractive to the Basses because taxes on the gains are minimal.

Any investor would love such a strategy. But convertible arbitrage is not for small fry. If you have only a million dollars or so, you can't play this game. Congress and the brokerage houses have excluded you.

Since the Basses won't talk, let's turn to Jay Regan, a managing partner

at Princeton/Newport Partners, a New Jersey arbitrage firm. Asked to explain convertible arbitrage, he scrolls through his stock-quote screen until he comes to AMR Corp., the holding company for American Airlines. AMR common, which pays no dividend, is trading this particular August day at 31½. There also is a preferred, paying a \$2.13 annual divi-



The Bass brothers of Ft. Worth: Sid, Edward, Robert and Lee (clockwise from top left)

The rich get richest.

dend and convertible into slightly more than one share of AMR common. It's available for 32½, only \$1.50 more than the common.

"You buy the preferred and short the common," Regan says. "The maximum amount you can lose, if they stop paying the dividend, is the \$1.50 premium. If it remains solvent,

you make a 6.5% return on the preferred." At that rate it would take less than a year to earn back the premium. The trader, meanwhile, is protected against price swings in the market. Any gain or loss on the preferred would be offset by a loss or gain on the shorted common stock.

Despite several complications, which can be circumvented, the AMR deal looks so good that Regan later takes a position. In two weeks the market has vindicated him. The spread between the two stocks has widened enough to yield a \$1.49 profit before commissions, a neat return. On an annual basis, that's about 120% on the cash investment.

Executing such trades, of course, is easier said than done, and a bungled execution would cost a point or two and wipe out the profit. But the trading gains are only the beginning. There are two further advantages. One is that dividends are 85% tax-free to a corporate shareholder like Bass Brothers Enterprises. Since the corporate tax rate is 46%, tucking stock away in a corporation brings the effective rate on dividend income down to 6.9%, compared with 50% for a top-bracket individual who is holding shares directly.

Next, arbitrage transactions can transform short-term capital gains into long-term gains. Such transformations are very desirable, since long-term gains (those on positions held over a year) are taxed at lower rates. The short-to-long magic is what those commodity straddles of a few years ago were all about. Convertible arbitrage is a straddle, too, with stock playing the role that silver once did. The principal difference is that the commodity straddle game caught on with small investors, and Congress outlawed it in 1981. Stock straddles aren't covered by that law.

There are other differences, having to do with the fact that a short sale of stock is treated as a short-term transaction, no matter how long the position is held open. If the common and convertible go down, that rule makes it impossible to get any transformation benefits out of the deal. But some of the time the two stocks will go up. In that case the rule works to the trader's advantage: So long as he hangs in for more than a year, he winds up with a long-term gain in the convertible and a short-term loss on the common.

Let's say an arbitrager with a broad portfolio of convertible hedges ends

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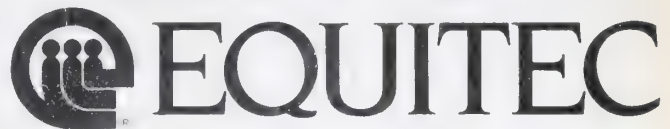
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the year with a balance of \$10 million in short-term losses and \$10 million in long-term gains. Just about even? If those are his only investment activities, he would indeed just break even. But we are talking about Texas billionaires and big-time arbitrageurs, who can be expected to generate gains elsewhere in their business that would be taxable as short term. In that case, the short-term loss generated by the straddles washes out an equivalent of the short-term gain made elsewhere. What remains is a profit in the long-term column, and that is taxed at a low rate. Complicat-

ed, but it is one of the ways in which the rich get richer.

And the Besses probably have short-term capital gains to shelter. In 1982 they made an apparent \$150 million on just one stock, Marathon Oil, which they were preparing to acquire. This year they made a similar but smaller gain when outbid for Suburban Propane.

Let's look at one of the Bass brothers' more attractive deals. In July they reported owning 337,060 shares of American General convertible preferred, about \$20 million worth, with a short position in the common equiv-

alent to 752,822 shares. The positions have been carefully accumulated over at least a year, but, for purposes of simplicity, consider how the numbers would shape up on the basis of June 30 stock prices.

For every \$1 million worth of preferred, they would short about \$813,000 worth of common. They could expect about \$84,000 a year in dividends off the preferred, mostly tax-free. They would pay out \$29,000, fully tax-deductible, in dividends owed to the lender of the common stock. They would collect about \$73,000, fully taxable, from interest off the proceeds of the short sale. Net aftertax return: a bit more than 10%, very good considering the low risk and the fact that a financially strong corporation can borrow at an aftertax cost of about 6%. As for capital gains, the Besses should come out slightly ahead, no matter which way the stocks move. The sheltering effect of the transaction on gains elsewhere would be icing on the cake.

The only reason more arbitrageurs haven't played this hand is that the Besses have already soaked up a large portion of the American General common available for lending.

Why can't you do stock straddles? The first reason is that brokerage houses won't pass along the interest they make from the proceeds of short sales by retail customers. That just about kills the economics of arbitrage, at least on a pretax basis. The Besses get the interest because they have clout (*see box*).

The other killjoy is the tax code. That convertible preferred stock is attractive because its fat dividend is 85% tax-free to a corporate holder. But it won't do to set up just any corporation to hold your stocks. Congress has enacted punitive rules aimed at "personal holding companies," defined as those with over 60% of gross income from passive sources like dividends and interest. Such companies are, in effect, forced to distribute profits, so the money can be taxed at the shareholder level. Other tax-code provisions take aim at operating companies that "unreasonably" accumulate income to protect it from personal taxes on the shareholder.

An investor with a diversified, expanding business empire—the Besses are making huge realty investments—escapes this rule. But unless you have many irons in the fire, as the Besses do, you can probably forget the whole tax advantage. As a great writer once said: The law in its majestic equality forbids rich and poor alike to sleep under bridges. ■

Interest-free

Selling short is risky business because the potential loss is unlimited if the shorted stock goes up. If that weren't trouble enough, by Wall Street custom, most short-sellers also get short-changed.

It is the virtually universal practice of brokerage firms to deny retail customers the interest earned on proceeds of short sales. For a quick killing on Warner Communications or Texas Instruments, that rule won't hurt much. But to someone hanging on to a short position for a long time, or emulating the arbitrage plays of the Bass brothers, interest makes the difference between winning and losing.

And brokers tend to be rather coy when a customer asks about the interest. Rarely do they confess that the reason for the rule is to help pay overhead at the brokerage house. The arithmetic of these reactions is confusing anyway, what with federal margin rules involved.

If, for example, a speculator wants to short 1,000 shares of AMR at 31, there will be \$31,000 in sale proceeds that the broker retains to buy back the borrowed stock at a later date. But there will also be a requirement that the customer put up a certain amount of additional collateral, since the AMR may go skyward. The extra collateral, at least, causes no pain, since it can be in the form of Treasury bills or other securities and the customer loses no interest or dividends on them.

But what about the sale proceeds? Listen to Joseph Pizzarelli, of Prudential-Bache's stock-credit department, as he tries to explain what happens to the money.

Can we put the \$31,000 into T

bills so as not lose to interest? FORBES asks.

Absolutely not, says Pizzarelli. It's not part of the "free credit balance."

Why not?

"It's a position that doesn't exist in reality. It's a sale of a security you don't own."

But what happens to the \$31,000?

"It's segregated."

So Bache just keeps the interest?

"The firm does not use that money."

Hmm. Who does?

"Nobody does."

This perplexing line of reasoning is not at all atypical. Other brokers argue that it's illegal to pass along the interest earned.

"There's nothing illegal about it," says arbitrator Jay Regan; his point is confirmed by an SEC attorney. "They just don't do it."

Except for pros like Regan, working with millions of dollars. He demands that 80% of the interest generated by short sales be rebated to his firm. He says he often gets 90% by bypassing the broker and borrowing stock directly from institutions like pension funds. The remaining 10% of the interest is gravy to the stock lender, since the lender suffers no opportunity cost. That's because short-sellers not only have to replace the stock someday but also have to reimburse the lender for missed dividends.

And the Bass brothers, who have a net worth in the billions and have their own in-house block-trading desk? Says Regan: "You might say they are strong enough to get a rebate."—W.B.

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Computer genius Seymour Cray is broadening his product line but keeping his market niche narrow.

War games

By James Cook

JOHAN A. ROLLWAGEN likes to tell this story about computer genius Seymour R. Cray:

"He used to make sailboats. He'd make a new sailboat every year. He

built it in his basement, designed it and built it for himself. He'd take it out and sail it all summer and then burn it in the fall. He wanted to carry it from the point of conception all the way through a summer's worth of sailing. When he got all the ideas for

what to do next year, he didn't want the boat to exist anymore. He'd burn it so it wouldn't be there to bother him next year."

Having finished the story, Rollwagen laughs uneasily. "He'd burn computers, too."

Rollwagen knows whereof he speaks. Capitalizing on Cray's restless search for perfection is his full-time job these days. Cray split off from Control Data in 1972 to form his own company, Cray Research. Then, in 1980, he handed the reins of the company to Cray President Rollwagen, then just 39. With Rollwagen installed as chief executive, the eccentric Cray retreated to his laboratories where he designs the world's largest and fastest computers—supercomputers, they're called. Now Cray functions as an outside consultant to the company he founded and built, under a contract that expires in 1985.

Rollwagen presides over a \$141 million company whose machines are so awesome that the producers of *WarGames* wanted to star a Cray-1 as the



John Rollwagen, chairman and CEO of Cray Research

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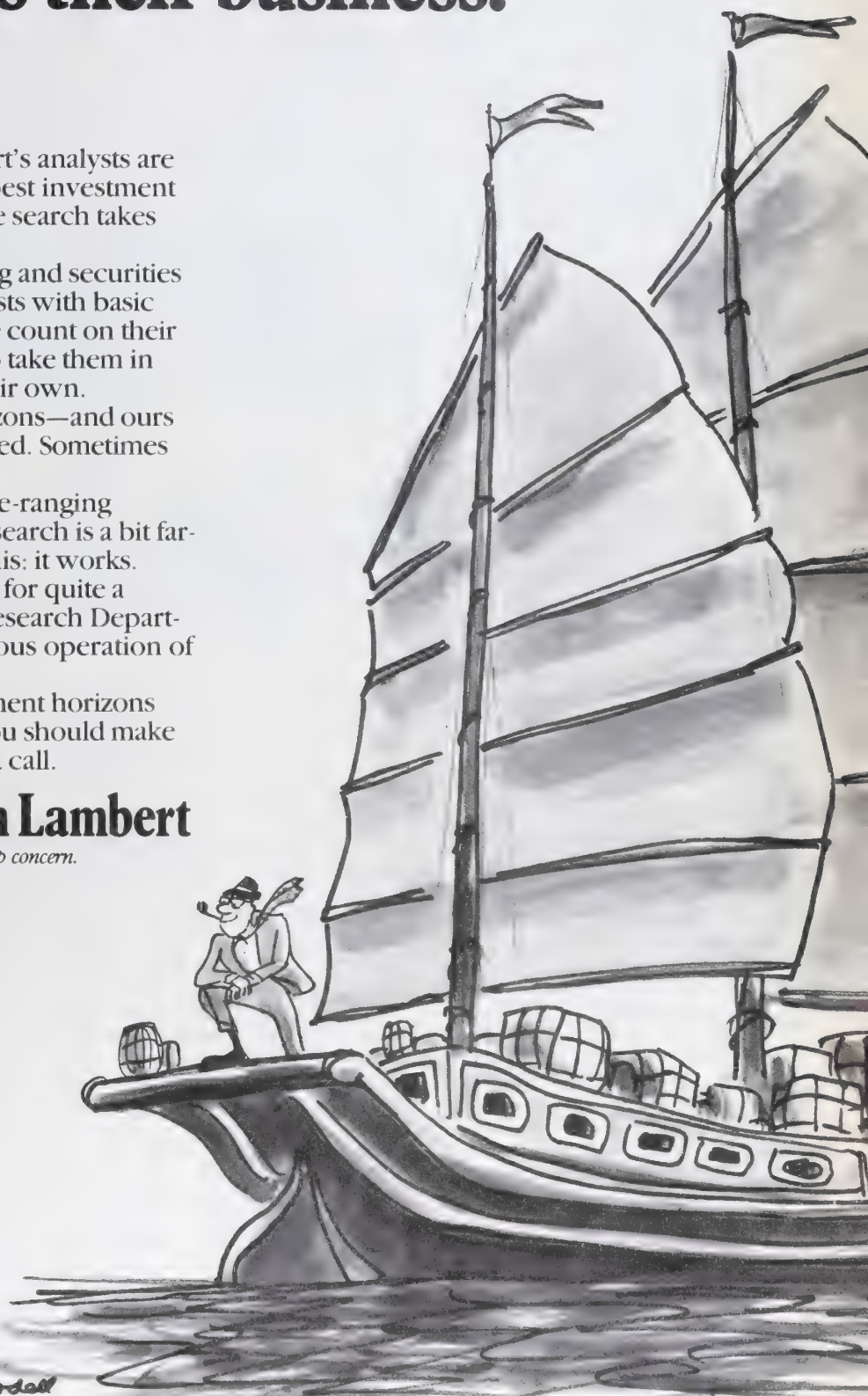
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Modell

villainous WOPR in their movie. Cray Research discreetly declined, but the moviemakers had Cray's number. The supercomputers Cray manufactures are used for simulating complex physical phenomena like the detonation of a nuclear weapon, tomorrow's weather pattern or the structure of a petroleum reservoir. You won't find Cray products in your friendly neighborhood computer store. They range in price from \$4 million to \$14 million.

That means, of course, that Cray Research lives off a fairly limited market—maybe 400 customers worldwide, including governments, university research laboratories and an occasional commercial enterprise. Rather than trying to be all things to all people in the computer business, Cray wisely decided to concentrate on a market so small and so demanding that competitors could not easily break into it.

So Cray remained a maker of custom supercomputers. In the seven years since it got into production it has built only 60 machines, 15 of them last year, with its customers split rather neatly between governments (50%), universities (25%) and businesses. Two-thirds of its sales came from abroad, one-third from the U.S. And the strategy paid off. Cray went from a \$1.6 million loss in 1976 on a mere \$1 million in sales to a \$19 million profit last year on \$141 million in sales.

The company's stock rose correspondingly, from under 2 in 1976 to over 50 this year. The multiple: upwards of 35, which says a lot about Wall Street's assessment of Cray's prospects.

While Cray labors in his labs to design yet another generation of supercomputers, Rollwagen is managing the manufacture and marketing of the current product line, two increasingly high-powered computers that extend its price range from \$4 million to \$14 million, as noted, and its performance range from 20 million to 200 million calculations per second. "That's what makes our business different from others," Rollwagen says. "You press for five or ten times the performance in your next machine. You can't just settle for 50%."

The original Cray-1 and its subsequent variants are no more. Last year Cray introduced the Cray 1-M (for Metal Oxide Silicon memory), a machine with the same capacity as the old model but, thanks to that MOS memory, half the size and half the cost. And it's selling at half the price.

But a lower-priced 1-M was only the

first step. By the time the 1-M was ready for the market, Cray had already produced another entirely new computer. This was the X-MP (for experimental, extraordinary multiprocessor), a model priced at the same \$10 million to \$14 million level the original Cray-1 had commanded. Providing two to five times the computing power of its predecessor, the latest machine widened the distance between Cray's products and those of his original employer, Control Data, which has begun to move into Cray's market niche.

More important, however, the new X-MP is a quite independent and original product. Though its software is intentionally compatible with that of the 1-M, the X-MP is, so Rollwagen claims, a completely new con-

You won't find Cray products in your computer store. They range in price from \$4 million to \$14 million. . . . Rather than trying to be all things to all people, Cray decided to concentrate on a market so small and so demanding that competitors could not easily break into it.

cept, with a different design, architecture and components, created by a team under the direction of Cray's brilliant vice president for development, Steve Chen.

The X-MP, Rollwagen explains, sets the pattern for Cray Research's future development. In exploding the capacity of its computers, Cray is narrowing even further the never very broad market for its most powerful machine. This makes sense because this tiny segment has great growth potential. Rollwagen sees the market for the X-MP consisting primarily of Cray's present customers, whose computing needs have outgrown the capacity of the Cray-1.

Which is where the new low-cost 1-M comes in. By dropping the price level—and so, in effect, the entry level for supercomputer usage—Cray has enlarged the prospective market for the company's new and more powerful X-MP line. Priced around the level of the top of IBM's line, the 1-M puts Cray machines for the first time within reach of the large corporate customer, in industries like oil, autos, chemicals or aerospace. "We're using the 1-M to open up the market," Rollwagen says, "to find new name customers who have never used a supercomputer before. We're selling at

prices people are used to paying for a computer, so the big challenge now isn't cost but simply a technical one."

Cray has 50 active prospects for its supercomputers at the moment—customers who are planning to buy in the next 18 to 24 months—and that's more than twice as many as a year ago. Some 30 to 35 are interested in the Ms, the rest in the Xs. And the Xs, as Rollwagen points out, are where the money is.

An interesting strategy. Get the customer interested in your Chevrolet and then sell him a Cadillac, the Cadillac being the much higher-priced X-MP and the Cray-2, which at long last is emerging from the uterine recesses of Seymour Cray's mind.

The Cadillac of the company's line, the Cray-2, should finally be on the market sometime next year after an outlay of more than three years and \$20 million, with a prototype ready this fall. Six to 12 times more powerful than Cray-1, it is capable of making 500 million to 1 billion calculations per second. That's the one that will carry a price tag of around \$14 million. Cray is experimenting with using gallium arsenide integrated circuits rather than silicon and hopes eventually to cut prices as drastically as it did with the 1-M. "I think we've got a good horse to ride into the late Eighties," Rollwagen says.

So after two years of stagnant earnings, Cray Research seems poised to start moving once again. Analysts are predicting earnings of around \$1.80 a share this year, up from \$1.38 last year, on a 20% increase in sales, to \$170 million. Next year should be better still.

Meanwhile, Cray is looking over its shoulder at the Japanese, who make no secret that they regard Cray as a "target of opportunity." Hitachi and Fujitsu both have announced computers positioned between the 1-M and the X-MP, but they haven't installed any yet.

Cray and Rollwagen could hardly afford not to take the Japanese competitive threat seriously, and they do, but they're not panicking. Why? Because Cray's strength is not in high-volume manufacturing—where Japanese engineering and productivity excel—but in pure technology. In fact, the company takes advantage of Japanese strengths. "More than half our parts come from Japan," Rollwagen says, "and if we didn't have those parts, we'd have a hell of a time building our machines."

No question about it: Seymour Cray isn't just another scientist; he's a national resource. ■



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Max. width	70"	70"	70"
Width between wheels	51"	51"	51"
Cubic capacity	61.1 cu. ft.	76.6 cu. ft.	76.6 cu. ft.
Transmission (std.) (opt.)	4-spd manual O.D. Automatic	4-spd manual Automatic	Automatic 4-spd manual
Est. hwy./EPA est. mpg range	30/21 ++ 600/420 ++	23/18 ++ 450/360 ++	Over 8500 lbs. GVW not rated by EPA
Fuel tank (std./opt.)	20/30 gal.	20/30 gal.	20/30 gal.
Engine (std.)	225 slant six	225 slant six	318 4 bbl. V-8
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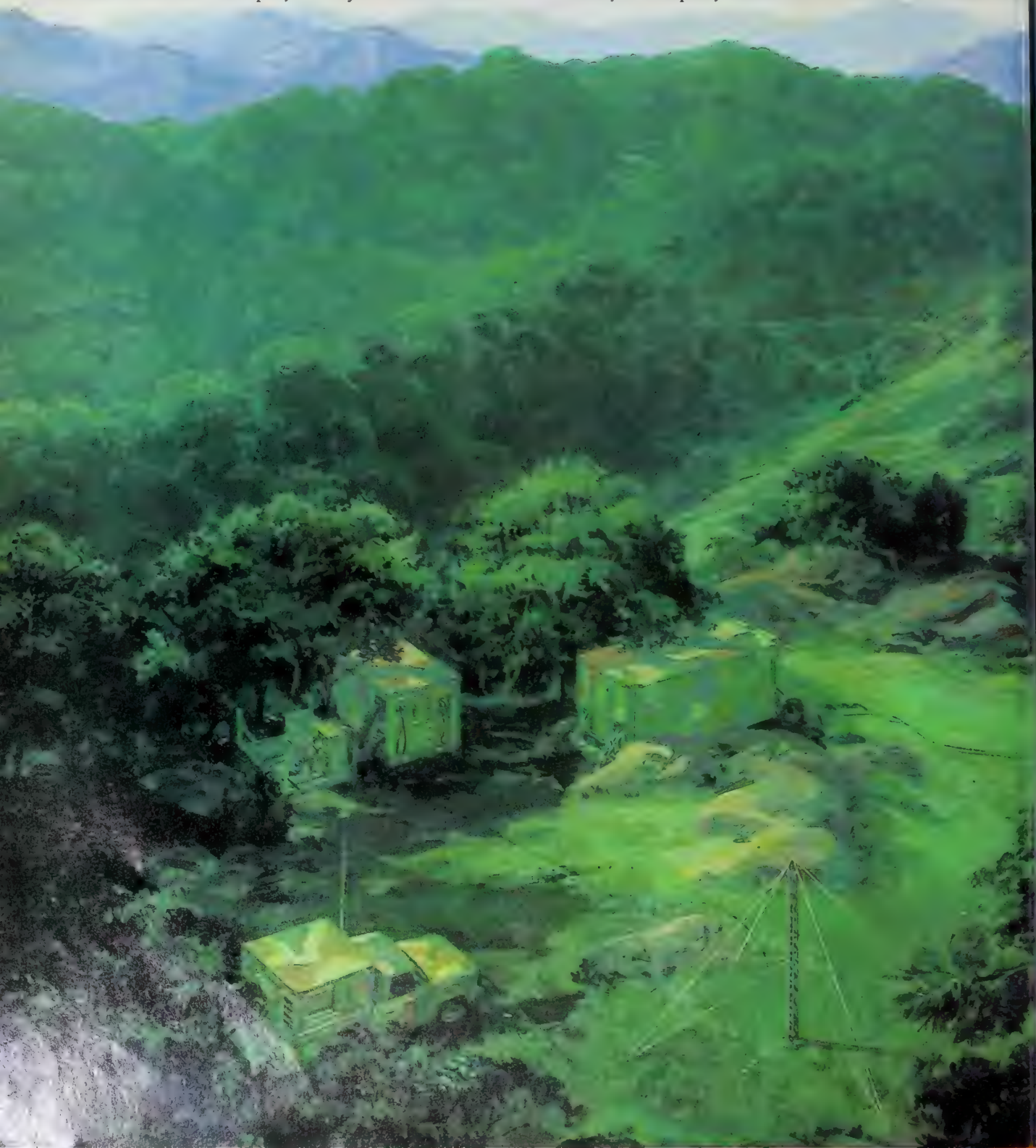
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In a land where misdeeds, not good deeds, are the stuff of legends, Bob Mosbacher proves that nice guys needn't finish last.

Standing tall in Texas

By Toni Mack

IT WAS 1938, when he was 11 years old, and the chauffeur was driving him and his father from their big White Plains, N.Y. house to their apartment in Manhattan. They were passing through Harlem when his father suddenly grabbed him by the jaw and turned his face to some ragged boys playing stickball in the street. "See those kids out there?" he said. "Don't ever forget that the difference between you and them is that you were lucky enough to have a father who was lucky enough to make some money."

Forty-five years later Houston oilman Robert Mosbacher still hasn't forgotten. He's probably worth about \$150 million in oil and real estate, and, thanks to that Texas knack of mixing oil, money and politics, he's a man of enormous political influence in the Republican Party.

But in the land of the Hunts and J.R., where legends are made by those who do to their neighbor before he does it to them, Bob Mosbacher succeeds on another level, by being liked and respected, by working hard for himself and his friends, by combining brains and integrity. About half his drilling funds come from other oilmen with faith enough to give him *carte blanche*.

In the Houston office of Mosbacher Production Co., photographs of Mosbacher with Reagan, Bush, Ford and the like are relegated to the hallway. It's a photograph of his late father, Emil, that holds pride of place on the credenza behind his desk. Relaxing in a worn armchair, Bob Mosbacher is clearly still enthralled as he tells us his father's up-from-the-streets story.

Emil Mosbacher began as a runner on the Curb, which later became the American Stock Exchange. With a small stake—from savings or winnings in a crap game, his son isn't sure—Emil began trading on the exchange himself. By 1917, when he was 21, he was a millionaire.

Better, he began liquidating before the market crash of 1929 and wasn't badly hurt. But he saw some of his best friends fall, and it made him determined to mold Bob and his older brother, Emil Jr., into stern stuff. He shipped the boys to strict prep schools and started them sailing to learn competitiveness and the discipline of the sea. Robert went on to win world championships in two different Olympic classes in 1969 and 1971.



Robert Mosbacher of Houston: a champion at mixing oil, money and politics
"I may not be very much of a leader, but I'm a lousy follower."



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Profiles

Long before that, though, Robert Mosbacher had decided to split from his father and older brother. "I may not be very much of a leader, but I'm a lousy follower," he says, smile lines creased around his blue eyes. At age 21, with a degree in economics from Washington and Lee University, a pregnant wife and a little less than \$500,000 from his father, Robert left to make his own fortune in Houston.

To learn something about oil, he talked to oilmen. "Some of it was very interesting and some of it was very helpful and some of it was very boring. I'd sit there listening to some of these older oilmen and I thought, if I'm ever successful, please Lord, don't let me sit there and pontificate about making big money. So here I am."

Here indeed. This year Transco Energy is putting \$25 million with Mosbacher for exploration and development drilling. When one oil company simply hands money over to another, it's high tribute to the latter's oil-finding talents. "It's hard to find any area of the onshore Gulf Coast territory that Bob doesn't know thoroughly," says John Lollar, president of Transco's exploration subsidiary. "He concentrates on those areas where the economics works best—where, when you find something, you can get it on stream quickly and get the cash flow coming back in."

A little toughness helps. Mosbacher recalls with glee his first "seven-figure" (dollars) find, a gas field in south Texas in 1954. The only nearby pipeline belonged to legendary Dallas oilman Clint Murchison, who offered Mosbacher 2 cents per thousand cubic feet. "Don't you think it's worth more than that, Mr. Murchison?" asked Mosbacher. "Oh, I sure do, Bobby," Mosbacher recalls Murchison sweetly saying. "But my boys think I'm crazy to buy at all." Murchison explained that he held adjoining acreage and thought he could drain Mosbacher's field by drilling his own wells. Mosbacher turned him down—"I was scared," he says. But Murchison drilled a dry hole, and Mosbacher sold out for over 3 cents per thousand cubic feet.

Aggressiveness born on the high seas serves him well, too. "Sailing is very much a judgment-oriented sport," says Thad Hutcheson Jr., a Houston lawyer who has crewed for Mosbacher. "It's a combination of intuition and objective information, and someone gets to the mark first. Bob loves to make those decisions."

In 1978 Mosbacher heard that Gulf Oil was looking for someone to take over promising Montana tracts. Other oilmen were already inspecting the tracts. Mosbacher flew up in his Sabliner jet, worked through the day and into the night and made a deal for seven tracts the next morning, long before the others' offers trickled in. He found oil on six of the seven tracts.

He talks of John W. Mecom, once reckoned to be the third richest wildcatter behind H.L. Hunt and Sid Richardson. Dazzled lenders "almost forced money on him," says Mosbacher, "and he found ways to spend it, as we all do. That was the beginning of his downfall. I learned that you should never wildcat out of capital or borrowed money."

That's a lesson many oilmen forgot the last few years. Says another oilman, a close friend of Mosbacher's, "Even at the height of the boom,

"I'd sit there listening to some of these older oilmen and I thought, if I'm ever successful, please Lord, don't let me sit there and pontificate about making big money," says Robert Mosbacher, who left the East to make his fortune in Texas. "So here I am."

when everybody else was going full blast, Bob ran his business as if we were still in a mediocre period."

Of course, the glut affected him. His gas production is down about 25% (from where, he won't say); half of his ten drilling rigs, some owned with another oilman, are sidelined. Falling cash flow and the flight of some of his investors have cut his exploration budget down by over half, from a peak of \$60 million.

But to Mosbacher this is the time to buy acreage and explore, when the crowds have scattered. "I'll take all the gas deals I can find," he says. "The cost of drilling has gone down damn near half, and the price when we can sell the gas will be at least \$3 [per thousand cubic feet], probably closer to \$3.50 or \$4. Even if you don't sell one cubic foot of gas for two years, and add in interest on the cost, you're still way ahead."

Picking the moment is important in politics, too. Mosbacher and Jim Baker, now of the White House staff, talked George Bush into withdrawing from the presidential race in time to put him in line for the vice presidential nomination. "He's as close a con-

fidant as I've had," says Bush. "He's a friend."

Mosbacher's fundraising abilities put him among the Republican elite. He came into Gerald Ford's presidential campaign with the coffers almost empty and immediately sent out the call to his own list of 1,700 people. "An ordinary response would have been 5% to 10%," says Robert Odell, finance director under Mosbacher. "Something like 50% sent money back. It was incredible. And they did it not so much because it was for the President but because Bob asked." Mosbacher went on to raise over \$14 million, about \$2.5 million more than Carter raised. Since then he has been finance chairman for George Bush during his campaign and now is co-chairman of the Republican National Finance Committee.

Political influence like this helps, even if indirectly. Independent oilmen, such as Mosbacher, have profited greatly from the sympathy of Congress. Just look at the tax breaks Congress has given them, like reduced rates on windfall profits taxes.

What makes people respond when Mosbacher asks? There is affability and all-American looks—strong features, an easy smile, the hale complexion and grace of an athlete. It may sound corny but there is an almost tangible air of probity, too. Then there is his approach, part charmer, part preacher. Ben Love, chairman of Texas Commerce Bancshares in Houston, has worked with Mosbacher raising funds for local medical institutions. "If someone is about to turn him down," says Love, "he doesn't budge in his chair. He smiles, and he continues to reason, and the next thing you know the fellow is saying, 'Bob, you really do believe in this, don't you?' And Bob walks out with a commitment for several hundred thousand dollars."

In oil, as in politics, success depends on trust. Chesley Pruet, an El Dorado, Ark. oilman, once shook hands on an agreement to drill a Mississippi well for Mosbacher in return for a flat fee and a percentage of anything found. The well came in, precursor of a handsome 50-million-barrel oilfield. With no written contract, Mosbacher could have left Pruet in the cold. He didn't. "His auditors and my auditors made us go back and sign a deal a year later," chuckles Pruet.

In short, Robert Mosbacher makes being a nice guy pay. Again, it all goes back to something his father told him: "You don't ever want to have to cross the street when you see somebody coming." ■

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Lease-a-jail

By Aaron Bernstein

SO YOU HAVE read all you want to about states and cities using sale-leasebacks to siphon money out of the federal government and into their coffers. Well, sit down for lesson two in municipal mischief. This time the financing ploy is called a lease-purchase. It's a nearly foolproof way to get around voters who have approved debt ceilings or rejected bond issues.

The technique is not brand new (FORBES, Nov. 24, 1980). But its use has spread rapidly in response to measures—like California's Proposition 13—that restrict government powers to levy taxes or borrow money. When voters won't let politicians spend one way, the politicians quickly find another. Last year, for example, states and cities used lease-purchases to buy an estimated \$2 billion worth of typewriters, computers, fire trucks and other assets. That's three times the volume in 1980.

It's all very simple. A lease-purchase agreement is just a kind of installment sales contract. A city or state leases equipment or property and makes yearly payments, with an interest charge built in. As with municipal bonds, the interest income is tax-exempt. At the end of the lease, the city will then own the property for a nominal fee. The process is much like buying a car on time.

This satisfies federal tax laws requiring that the lease be an official obligation of the tax-exempt entity.

But here's the tricky part, which makes it all worthwhile from the municipalities' point of view: The annual payments are conditional on appropriation of funds by the city council or state legislature. This means that the government unit involved doesn't have to call these lease arrangements long-term debt.

Presto. Lease-purchase transactions don't need voter approval the way

interest rate than the city would pay for a comparable bond offering. So, the municipality usually winds up paying a premium for the privilege of hiding some debt.

There have been several half-hearted efforts by accounting regulators to force governments to put lease-purchase contracts directly on their books as long-term debt. But a good number of cities and states have resisted. In Lakewood, Colo., for instance, voters turned down a bond issue for a city hall. So city officials arranged a lease-purchase contract. Some citizens challenged the arrangement, but the court sided with the city officials—buying the argument that leases really are not long-term debt. The city got its hall, all \$11 million worth.

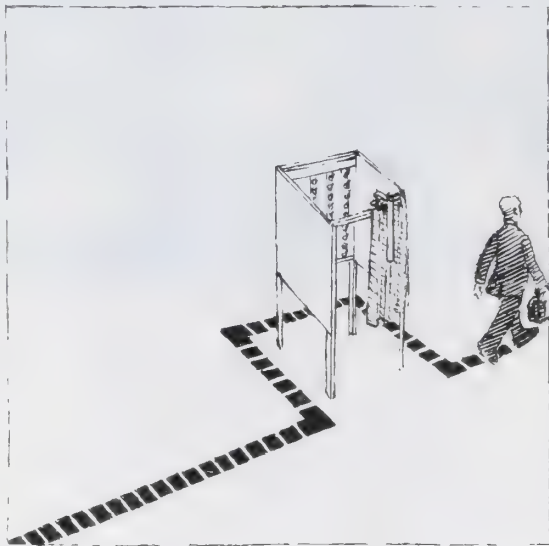
Both Moody's and Standard & Poor's consider lease-purchase contracts long-term debt. They also rate large lease-purchase contracts, some of which are sold to the public. That means cities or states with heavy loads of lease-purchase financing may have to pay higher interest charges on traditional bond issues. Net result: The voters may not only pay for acquisitions they didn't want but also pay more for other borrowing.

As you might expect, now that lease-purchases have become big business, the field has attracted underwriters and investment bankers eager to sell these transactions to the public. So far, there have been a few big deals. Among them: the \$54 million that Anaheim, Calif. raised for new parking facilities and the \$34 million San Diego wanted to help pay for a telephone system.

Some cities have become so dependent upon these lease-purchase agreements that they actually have more debt off the balance sheet than on the balance sheet. Jefferson County, Colo., for example, shows absolutely no long-term debt on its

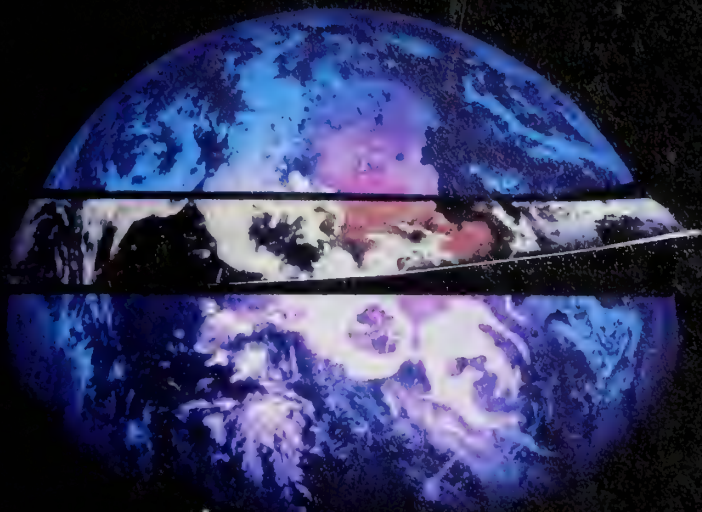
books. Sounds like the model of fiscal conservatism, right? But wait. This county of 370,000 has signed up \$30 million in lease-purchase agreements to build a jail.

All this turns out to be good for investors, good for the underwriters and good for the city finance officers, but it helps defeat all those efforts being made to get government spending under control. ■



bonds do. They can be hidden in the unread footnotes of a municipality's books. And they are not subject to Proposition 13-like laws that restrict spending.

Naturally, few cities are going to renege on lease-purchase payments for a jail or a fire truck. They would never be able to do another leasing agreement if they did. But, just in case, the folks at the other end of the lease deals usually demand a higher



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GLOBAL INVESTMENT BANKING

A dreary Pennsylvania coal town thought the corpse of a famous athlete would bring back the glory days. Will high tech stir up the same false hopes?

Jim Thorpe's new hero

By Carol E. Curtis

JIM THORPE, a tiny (pop. 5,271) spot on the map in northeastern Pennsylvania's Carbon County, is a three-elevator town: The courthouse, the rest home and the church are the only buildings that have one. It has no restaurant, no functioning hotel (an old Victorian landmark is being restored), and downtown is two blocks long.

It used to be called Mauch Chunk, or "bear mountain," in the days when anthracite was king. That was in the

mid-1800s, when Mauch Chunk was at the hub of a network of coal mines, railroads and canals that propelled America into the industrial revolution. At its height, Mauch Chunk is said to have had more millionaires per capita than any city in the U.S.

But anthracite is a dead industry. Annual production has fallen from a 1917 high of 100 million tons to 5 million. The industry has been on the skids—and so has the town—since World War II.

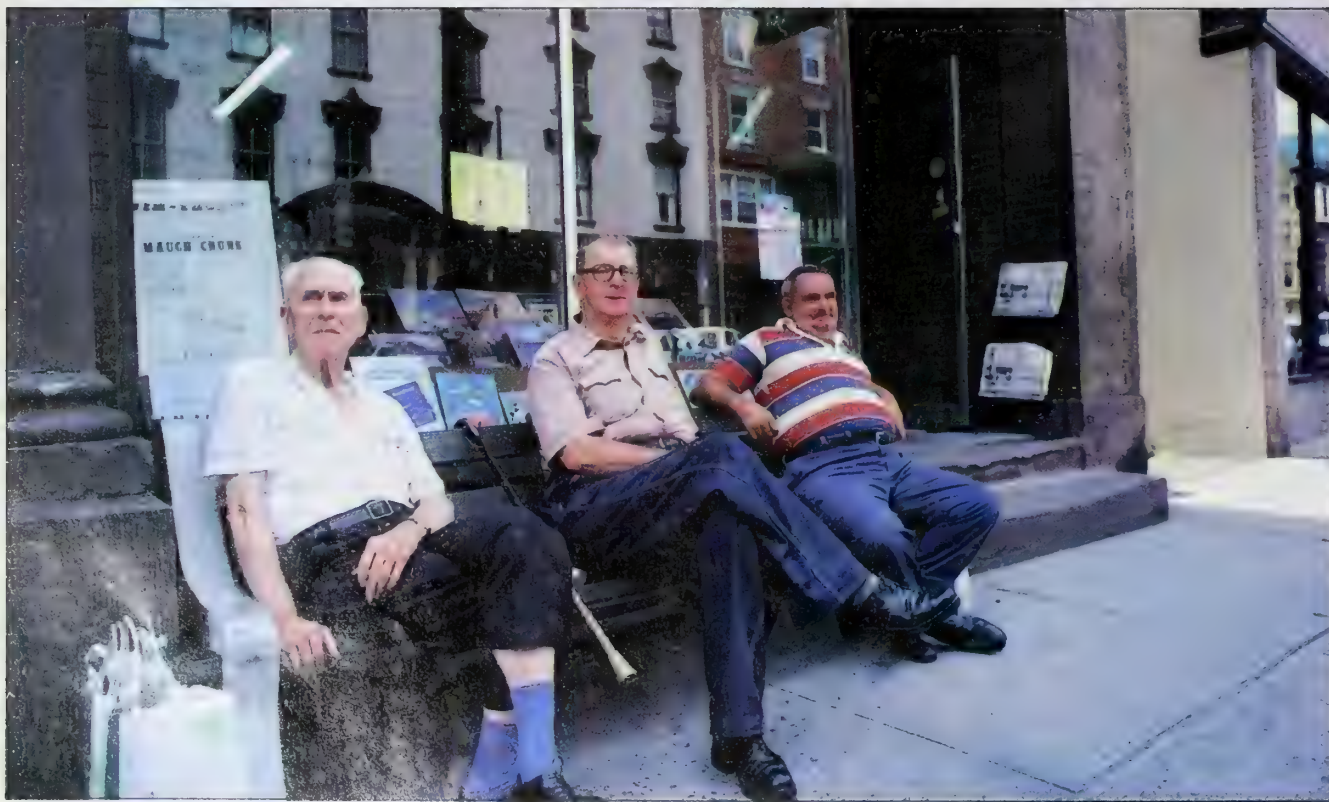
Enter the strange tale of Jim Thorpe's corpse. Thorpe, you may re-

member, was the world-class athlete who achieved national celebrity for his prowess in track and field while a student at the Carlisle (Penna.) Indian School and then international acclaim when he won gold medals for decathlon and pentathlon in the 1912 Olympics. He turned professional and went on to excel in baseball and football—and, alas, alcohol consumption—securing his reputation as one of the greatest athletes of all time.

Shortly after he died in 1953, his widow happened to be in Philadelphia, watching a TV program about down-at-the-heels Mauch Chunk, which is 90 miles from Carlisle. The town's latest gimmick to raise money, the brainchild of local newspaper editor Joe Boyle, was a "mile of nickels" program. Boyle had strung tape from the courthouse up the hill and through the town and was asking passing motorists to "stick a nickel on the tape for Mauch Chunk."

Mrs. Thorpe had a better plan. She offered the town her husband's body—and suggested the town rename itself after him.

True, Jim Thorpe had never set foot in Mauch Chunk. He was an Indian born in Oklahoma. But that didn't stop the enterprising Boyle from seeing visions of glory in Mrs. Thorpe's promises of civic endowments—not to mention the tourist attraction her



Street scene in Jim Thorpe, Penna.

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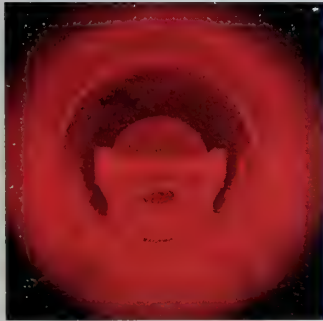
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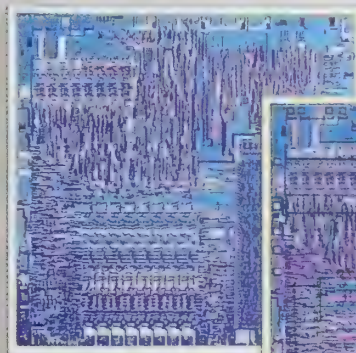
equipment. In fact, over 75% of the diffusion furnaces used throughout the Free World are Thermco furnaces.

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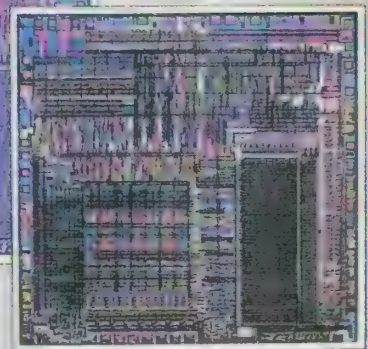
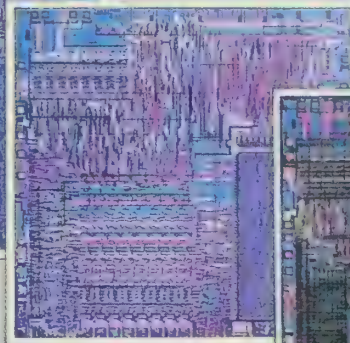
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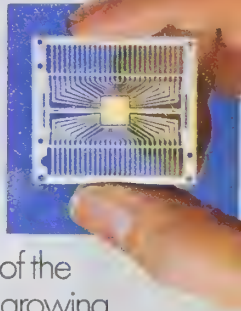
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Bob Gerber with his "programmable memory security telephone"
Will this man turn Carbon County into Silicon County?

husband's grave would create.

Boyle persuaded the city fathers to take the nickels from the civic panhandling, which by then added up to \$35,000, and buy a 20-ton granite tombstone to honor the dead athlete. Mauch Chunk became Jim Thorpe in a grand ceremony featuring local "Indian maidens" and a Girl Scout troop that formed the letters "J" and "T" while singing taps.

It was all downhill from there. No endowments ever materialized. Jim Thorpe's grave hardly became a magnet for tourists; most continue to pass through without even knowing that he is buried there. "We wanted a factory, and all we got was a dead Indian," became a familiar local gripe.

This time there is no dead Indian. Jim Thorpe, as hard up for money as ever, has pinned its hopes on a new hero to bring back the glory days.

Bob Gerber's dad used to own a bar in Mauch Chunk. But Bob, 34, has gone on to better things: He earned a B.S. degree in electrical engineering and returned to town to found his own company, Gerber Technical, Inc. (no relation to Gerber Scientific). The company's product is a device called a "programmable memory security telephone," a phone designed to eliminate unauthorized calls.

In June, when Gerber opened his plant on the outskirts of Jim Thorpe, it was the biggest event to hit the town since its namesake was buried. Gerber Technical is one of the few new corporations in the last 50 years to employ production-type workers in Jim Thorpe. Locals even compare

Gerber to Asa Packer, the 19th-century industrialist who founded the Lehigh Valley Railroad.

No town ever needed high tech more. Most of the youngsters who leave Jim Thorpe to go to college never come back. Others have departed in search of jobs. As a result, the population has fallen from a onetime peak of 7,000. Of those who remain, over 20% are out of work.

Walking the streets of Jim Thorpe at midday evokes the feeling of an abandoned movie set: dusty, deserted

streets; empty stores; no traffic. "Millionaire's Row" is a street of crumbling town houses. The only crowd is a small cluster of retired coal miners hanging out by the courthouse.

For all the excitement over Bob Gerber, his company is a long way from delivering on its promise. With a capitalization of about \$100,000, most of it from local residents, the company is barely in the same league as even the smallest of high-tech startup ventures. Its only product is a standard push-button phone, with a computer chip added to enable it to store long-distance dialing codes like the ones used by MCI. Gerber's theory is that with the code stored in an office telephone, fewer people will need to know it, and monitoring one phone instead of numerous employees will cut back on theft-of-service losses.

To date, Gerber has received only two orders for several hundred phones. His factory is in a converted gas station not much bigger than a garage, and it employs 10 people. At full production, which Gerber hopes will be attained this December, it would employ 40. But in a town where so many workers have been out of a job for so long, it doesn't take much to raise hopes.

"The day may not be far off," the Allentown, Penna. *Call-Chronicle*, the area's local paper, speculated, "[when] Carbon County will be known as Silicon County. . . . If Bob Gerber had been born 100 years ago, he might have invented the telephone!" ■



Jim Thorpe's grave

"We wanted a factory, and all we got was a dead Indian."

The waiters and the chef didn't like their restaurant chain's management, so they demanded a change. They got it. Now look who's running things.

Mutiny in the galley

By Michael Cieply

IT WAS EITHER HERE," murmurs Alan Redhead, a 40-year-old Liverpudlian, as he nods toward the pleasure boats in Los Angeles' Marina del Rey, "or the Outer Hebrides." Redhead, whose family for two generations served as waiters and stewards aboard such ocean liners as the *Queen of Bermuda*, chose to make a go of it in California when declining fortunes in the steamship business ended his family's traditional livelihood. In 1964, newly married and working as a hod carrier, Redhead decided against settling in the windy Scottish isles and bought two British Airways tickets to Los Angeles.

Two days after his arrival, Redhead found himself in a trendy San Fernando Valley restaurant called the Hungry Tiger, where an old shipmate of his father's was waiting on tables. In those days the Tiger was run, as much for pleasure as profit, by Robert Prescott and Richard Rossi, both veteran pilots from General Claire Chennault's Flying Tigers. Prescott's principal business was his nearby air freight company, the Flying Tiger Line, Inc. But, along with other East Coast cargo, Tiger pilots hauled in live Maine lobsters to supply the Hungry Tiger.

Redhead got a job as a busboy and in four months worked his way up to waiter. He has been working his way up ever since. The Tiger's old China hands are dead or retired. Redhead has become CEO and a large shareholder of Hungry Tiger, Inc. From a pilot's hangout it has grown into a chain of 45 medium- and high-price restaurants in Arizona and southern California with revenues likely to hit \$64 million in 1983. While plenty of splashy competitors have vanished, Tiger has increased its net income by 22.5% a year over the past five years. Its average return on equity has been 29%, compared with 17% for Denny's and 20% for rival Chart House. Not coincidentally, one of those sleek sailers moored in the marina is Redhead's. He earned \$142,000 last year, and his 196,500 shares made him worth some \$1.8 million.

For the restaurant business, that's impressive. William Randolph Hearst once noted that otherwise sane men suffered a "very common weakness," the delusion that they could run a newspaper successfully, but Hearst just as accurately could have said restaurant instead of newspaper. When



Up from the galley, Hungry Tiger President Alan Redhead
The restaurateur as charming Jekyll and cost-slashing Hyde.

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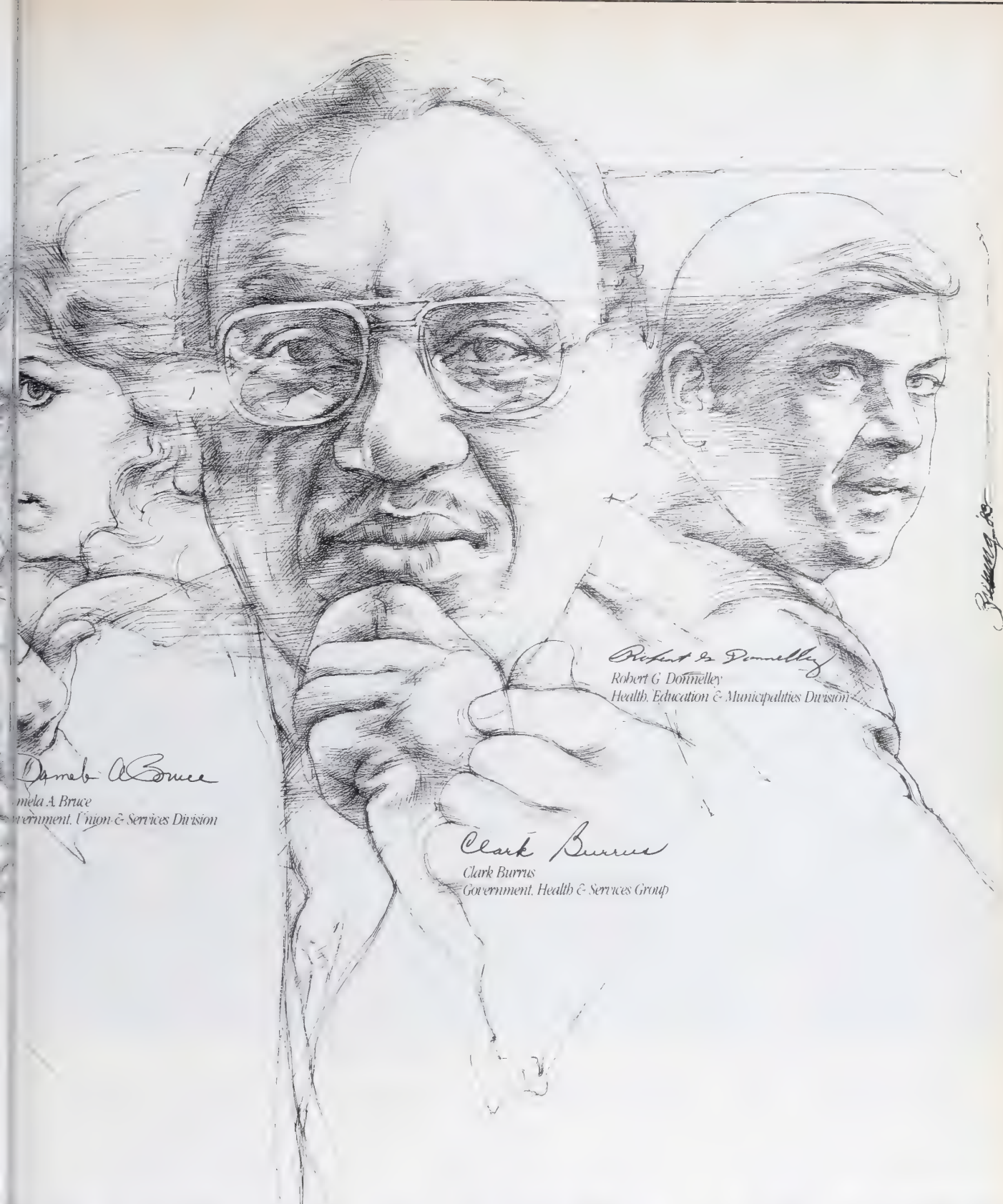
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WORK WORKS

The Up & Comers

Redhead arrived in the 1960s, Los Angeles supported or almost supported an overpopulation of pricey eateries, places like Dean Martin's now defunct Dino's on Sunset Strip, rival Jerry Lewis' restaurant, and many other in-today, out-tomorrow spots existing mainly to gratify proprietorial egos. "You name the restaurant, I'll name the comedian who started it," recalls Redhead.

Then, as now, more than 70% of the places were going bust within a year or so. The Hungry Tiger nearly went with them. With Redhead still laboring in the galley—he waited on tables through UCLA business school—Prescott and other investors, including Tiger International Chairman Wayne Hoffman, blithely sank cash into seven new Tigers in high-rent districts such as Palm Springs and San Francisco's Fisherman's Wharf. It wasn't just their own cash, either. Prescott sold 250,000 shares to the public at \$8.75 a share in 1972 and loaded up with debt. The flyers quickly dropped \$4 million on three palatial restaurants and a bar that Redhead now calls "Taj Mahals," even as they dreamed of new seafood emporia in Dallas, Houston and Denver.

Within 18 months, overbuilding and losses drove the tiny company's debt to \$1.3 million. The price on Tiger shares crashed to 12 cents, one-seventieth the offering price. "It was really bankrupt," Redhead says of the chain. It was about then that Redhead and others from the kitchen decided to take control. The ship steward's son conspired with David May, a chef, with Rene Sig, a waiter, and with a former Tiger finance vice president, James Mathewson. They had expertise but no money. "We were the guys who knew how to run a restaurant. That was it." The takeover talk grew into mutiny. Confronting Prescott at his Palm Springs home, the four insisted he give them full command of the fast-sinking ship. Prescott stalled a while but finally agreed to their demands for control.

The new officers acted quickly. They scrapped two of the bigger-losing Tiger restaurants and wrote off \$1.4 million in the process. The "Taj Mahals" were unsalable, but the debt incurred to open them had to be paid. To raise cash fast, the group personally guaranteed notes to buy failing competitors' places that could be reopened quickly and cheaply.

The scavenging worked. It also further honed the new management's

operational skills. That is no small point. Many chains stamp out "cookie cutter" eateries—the hulking boxcars of Victoria Station, the ranchy-looking Ponderosas or the orange-roofed Howard Johnsons. The Tigers are more diverse. Redhead picks his sites from a thick sheaf of lease offers by the latest crop of losers. He buys at a discount and shapes the saddle to the horse. Occupancy costs stay low. He revises the decor when necessary. Near high-technology-obsessed UCLA, the Tiger shimmers in bright green and chrome. In down-home farm country like Fresno, the Tiger seems comfortable in soft browns.

Redhead also cut prices through vigorous discounting and special promotions. Not every diner in California is a highly paid pilot. Today the average Tiger meal runs only \$11. The reason it outprofits its higher-price competitors is best explained by Redhead. "The successful restaurateur," he says, "must be Jekyll and Hyde."

The Jekyll-ish charm comes in the form of candlelit intimacy, a full bar and wine list and waiters who bow, scrape and smile as if they were paid \$100,000 a year to do so. The Hyde-ish reality is that they're earning a small fraction of that, and Redhead has broken new ground in doing things on the cheap. With fresh crab costing \$16 a pound and with aftertax profits of only 40 cents a customer, he has had to be creative. One year Tiger met its profit goal by discarding its linen tablecloths. That cut total cost one-half percent for the linen itself, and one-half percent for related labor. But the combined 1% reduction accounted for 20% of the chain's earnings that year. On occasion, Redhead pushes seafoods few have ever heard of, from Australia and elsewhere, acquired cheaply and offered on the blackboards as "orange roughly," or "cockle clams" or "oreo dory." Asking for advice on what to order, a

customer invariably gets steered to the low-cost, high-margin item. After such promotions, Redhead rewards his persuasive crew with giveaways like a trip for two to Tahiti.

If it has worked fine so far, the future seems less simple. As the recession took its toll on customer counts, Tiger net dropped 22% in the last three quarters, even as Redhead borrowed \$5 million to buy Castagnolas, a California seafood chain that now accounts for 25% of Tiger sales. It disturbs Redhead that so far Wall Street has only yawned at his operational creativity. Restaurant stocks with a "story"—e.g., "you can't miss with Mexican"—such as Chi Chi's or Naugles, recently traded at multiples, respectively, of 55 and 42 on the promise of "cookie cutter" growth. But Hungry Tiger's shares lag at 12 times 1982 earnings. Redhead won't sell new shares at that multiple. Because Tiger has devoured the proceeds of its original stock offering, it has had to borrow new capital. Of its total, 45% consists of debt. Effectively, then, expansion is now limited to what internal cash flow will finance.

There are rich markets, meanwhile, that remain untapped. Tiger has only one restaurant each in San Francisco and San Jose and none in growing San Diego. To raise cash, Redhead has licensed the Hungry Tiger name to the Chujitsuza supermarket chain in Japan. And he has opened three low-price seafood houses called the Breakers in Los Angeles, in part to preempt competition from General Mills' aggressive Red Lobster chain, in part to expand cash flow.

Redhead isn't even sure that explosive growth is worth seeking, however. "I've read Malthus," he says. And after all, it was by squeezing dollars, not by expanding helter-skelter à la Prescott, that Redhead turned pussycats into real Tigers. When the formula works, why change?

The doctor is in

Richard Meyer used to carry a violin case on his rounds in the early 1970s when he was trying to interest distributors in a couple of then-obscure beers called Dos Equis and Moosehead. "They may not have remembered my name," he says, "but they remembered that violin case. I guess it looked like I was carrying a machine gun."

Whether or not that had anything to do with it, Dos Equis and Moosehead went on to be big hits on college campuses and then to gain some national prominence. That made All Brands, a

tiny New York importer that Meyer and partners bought into, very happy. It also made Meyer rich. When All Brands merged with Standard Brands in 1978, Meyer pocketed stock now worth more than \$1 million.

That was back in the days when Meyer was working as a consultant, doctoring small businesses. In ten years he helped turn around or fix about ten companies. Now the doctor is no longer making house calls. Meyer's own business, Salt Free Gourmet Co., began marketing its first products recently and hopes to go

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For example, one G.V.E. team evaluated 21 different premium rear suspension systems for possible use in the Mazda 626. They compared handling characteristics, safety, vibration, ease of assembly, cost, weight, and many other factors.

The team included layout planners, chassis designers, cost control personnel, purchasing department staff, and numerous engineers.

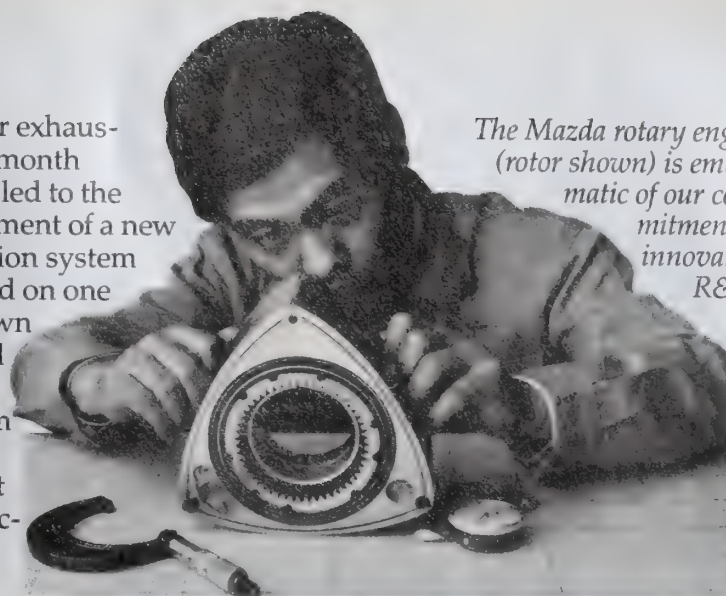
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engineering workload by about 11%—through the use of an *integrated* computer-aided design/computer-aided manufacturing (CAD/CAM) system.

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Salt Free's Richard Meyer
"It's Marketing 101."

nationwide later this fall.

Why salt-free products? "It's Marketing 101," says Meyer. "There are 20 million to 40 million people in the U.S. who are, or should be, restricting their sodium intake. Our market is 2½ times that because when one person is on a restricted diet usually everybody else in the household eats the same thing. They don't want the diet to feel bad."

The trick, of course, is to come up with salt-free food that tastes good. At present Meyer has three products: spaghetti sauce, kosher dill pickle slices and mustard. He is testing other condiments. To a visitor, the spaghetti sauce tasted sweeter than the best-selling Prego it was modeled after, but the mustard, similar to Grey Poupon, made a good spicy salad dressing. (The kosher pickles, not surprisingly, were not salty enough.)

If the products are slightly bland, Meyer's corporate strategy has a certain piquancy. It incorporates many of the lessons he learned working with undercapitalized companies that ran into trouble trying to do everything themselves. The Salt Free Gourmet Co., with only five full-time and two part-time employees, seeks to do as little as possible itself. It manufactures nothing, contracting with food processors, including some competitors, to package its products. "They have excess capacity, so we help them fill that," he says. "We never want to own a factory."

Similarly, while Meyer takes great pride in the bucolic, country-landscape-green labels that he had designed, the glass containers they decorate are the same ones used by his

competitors. "The molds are not proprietary, and it is simply a matter of Anchor Hocking, or whoever does the glass, doing a slightly longer production run," he says. Marketing, too, is through contract food distributors

The Up & Comers

rather than an in-house sales force. In fact, Meyer has succeeded in farming out just about everything.

Meyer started Salt Free Gourmet in 1981 on \$30,000. He expects it to be doing more than \$10 million in sales within two years, thanks to his low overhead and minuscule plant investment. He also expects to be profitable by then. That sounds simple enough. But Campbell, the maker of Prego, says it will have a salt-free version of the spaghetti sauce on store shelves nationwide by late September. Other big food companies are looking at the market. What then for tiny Salt Free Gourmet?

Meyer says he's not worried. "First, the market should be big enough for us," he says. "Second, I think we will out-taste them. At All Brands, I wasn't afraid of any major brewery taking over an imported beer; that wasn't going to stop me. So I think if I have a lean shop, I'll do well."

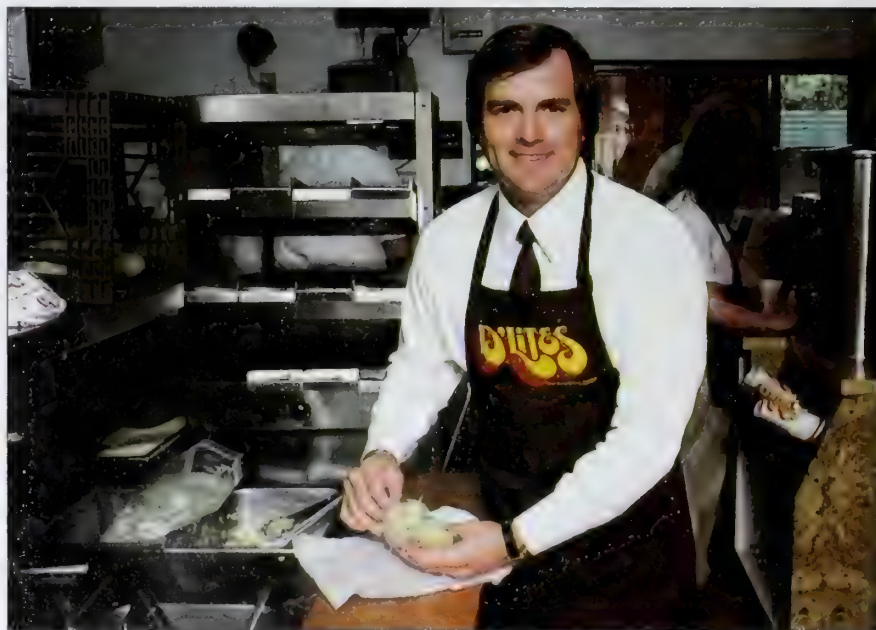
Brave words. But, of course, if all else fails, there's always that violin case.—Paul B. Brown

Light touch

Doug Sheley, a former football player for Defiance College in Ohio, grew up eating heartily, confident that real men had 20-inch necks. Befitting an ex-jock, he went to work in a health club after graduation in 1970, and then parlayed a small equity position into ownership of 18 Wendy's

franchises in the Southeast.

Times were changing. Astro turf replaced grass. Hair dryers were found in the locker room. Sheley changed, too. Convinced that the hamburger chains have saturated the market and can only grow at each other's expense, he sold his franchises for "over a mil-



Doug Sheley, D'Lites of America founder
Will real men eat frozen yogurt?

The Up & Comers

lion dollars" in 1981 and began building a chain of nutrition-conscious fast food restaurants named D' Lites. The first opened in Atlanta in December 1981, and he has added two more. Company-owned, they are grossing \$1 million a year apiece. Now, 200 new D'Lites locations have been assigned to franchisees. Sheley, who hopes to have 1,000 restaurants in operation across the country eventually, is already speaking enthusiastically of turning D'Lites of America into a \$1 billion (sales) company by 1991.

"I have been thinking about this for a long time," says Sheley. "When I had the Wendy's franchises some people would ask how many calories were in a hamburger. The salad bars went over well. Our timing is right. The 'light' concept that has worked so well for soda and beer will work for fast food chains, too."

Is Middle America ready for low-calorie hamburgers on whole-grain buns, menus with nutritional information and frozen yogurt for dessert? It could well be. Revenues at Sheley's first outlets are growing at 21% a year, and pretax profits amount to 20% of sales, although the company won't be in the black, he says, until the sixth outlet opens. But the first outlets are in and about Atlanta, which is a bit more sophisticated than Heartland, Mo. And even if the concept plays well nationwide, competitors won't be long in copying Sheley's formula. Burger King, for example, now has salad bars, and greens in a pita bread pouch, much like D'Lites. Sheley is hoping the big boys will be reluctant to tinker with their proven formulas and that he can stay a step ahead of them through R&D. "I'm not sure I'm right, but I'm hoping," he says. "I don't think this will be a matter of our battling for the same people who now go to fast food places. I think this type of restaurant will bring new people into the market. We're carving our own little niche."

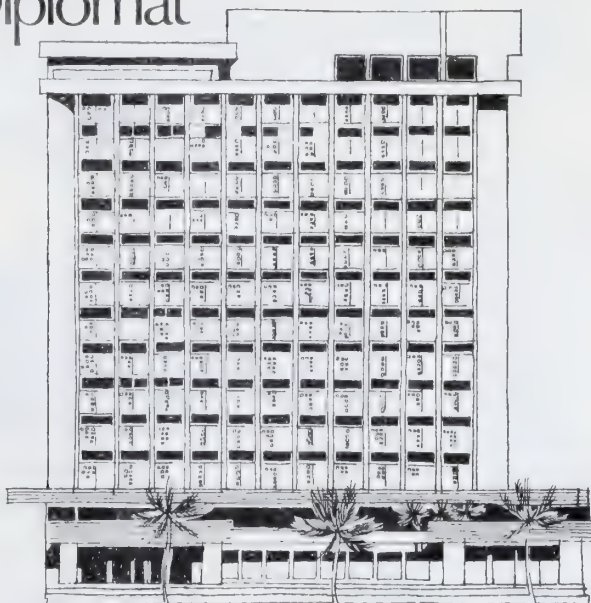
A healthy niche it would appear to be. But there's many a slip between \$3 million sales and \$1 billion.—Anne McGrath

The roar of little voices

When John E. Sloan Jr. became president of the First Tennessee Bank of Nashville in 1976, it had a logo, office space and not much else. "Business was not about to walk in the door," recalls Sloan, 46. "I had to go out and call on people."

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The Up & Comers

Sloan, who took over Sept. 1 as the president of the National Federation of Independent Business, the nation's largest small business organization, expects to be doing the same thing in his new post. The NFIB has 560,000 dues-paying members and a \$30 million budget, but Sloan wants more. The more members, the bigger the budget, and the bigger the budget, the more lobbyists and staff to do the members' bidding.

His legislative priorities? Two main ones are to cut out unnecessary regulation and to cut the government budget. "Not only is there the interplay between government borrowing and interest rates, which hurts the small businessman," he says, "but if you have to pay half your earnings in taxes to support the government, there is a lot less to spend on new plant and equipment."

Not all those lobbyists, he hopes, will be in Washington. "The federal government is not the entire prob-



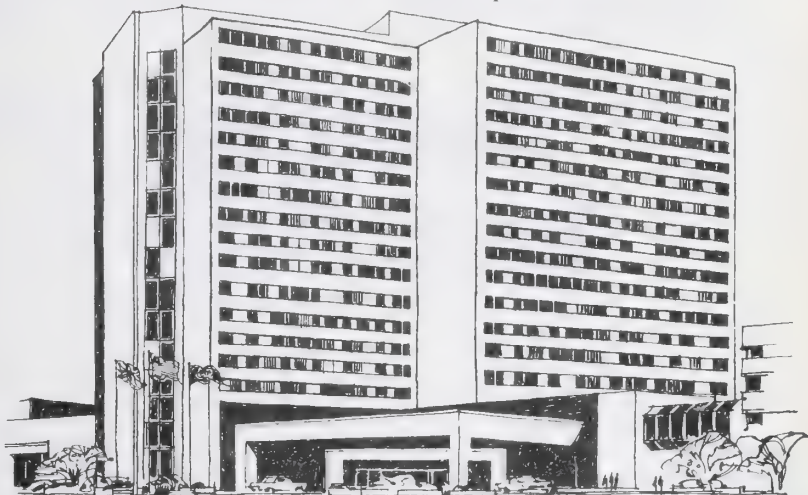
NFIB's John E. Sloan Jr.
With one stroke of a pen. . .

lem," says Sloan. "We're seeing more regulations and legislation at the state and local level. Somebody at the state capitol can do more with one stroke of a pen than our members can do in their boardrooms all year. We have offices in all 50 states and we want to be able to increase our staff at the local level."—P.B.B.

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Brunswick is showing better form, avoiding the gutter balls, and pleased to see that Gulf & Western has rolled its last frame.

Bowling for dollars

By Jill Bettner

JACK F. REICHERT, chief executive since April of battered Brunswick Corp., comes right to the point. "People said Brunswick was worthless, that our medical business was our only good one. When I said I genuinely believed the remaining Brunswick would earn \$3.50 to \$4 a share this year, they said I was crazy."

Reichert squeezed Brunswick like a sponge, wringing out more than \$18 million in salaries and other operating expenses from the 1981 levels. Gone are 400 white-collar workers and layers of middle management. Also gone are a couple corporate jets, the executive dining room and that medical products division. Result: Profits from continuing operations were up 148% in the first half of 1983 to \$31 million, or \$2.63 a share, on an 11% increase in sales to \$609 million. Analysts talk of maybe \$4.50 a share for the year, against a loss from continuing operations of nearly \$20 million, or \$1.38 a share last year. Without the \$211 million gain on the sale of its medical products division, Brunswick would have been in the red in 1982.

Brunswick, based in Skokie, Ill. outside Chicago, started out in bowling and billiards and then rolled into medical products, Mercury Marine outboard motors, fishing tackle and a range of defense and energy-related technical products. Gathering more and more managers, it grew top-heavy. "The pyramid was too tall," says Reichert, who collects pithy sayings, and who was ordained a Presbyterian elder shortly after joining Brunswick 26 years ago as a salesman.

Staving off a takeover bid by Whittaker Corp. last year was costly. The medical division, which provided \$24 million in profit as late as 1981, was

sold to American Home Products in the nasty fight. Then Reichert, 52, and president since 1977, added the title of chief executive and began squeezing. In the past year he has consolidated 11 divisions into 8. All the division managers now report directly to him and they bid equally for his attention, he emphasizes.

"It's clear we've done a reasonably



Brunswick's CEO Jack Reichert (center)

"They said I was crazy."

decent job of fixing this company," Reichert continues. Along with the streamlining, he has strengthened the balance sheet. Long-term debt, now 36% of equity, was as high as 50% just 18 months ago.

"One of the mistakes of American business is to follow the cash-cow philosophy of investing just in higher-growth businesses," he says, including his own company among the errant in the past.

Reichert says his goal now is to refocus the leaner Brunswick on some of its old businesses, including bowl-

ing. The company recently introduced a new automatic scoring device with two video screens, one that shows bowlers their scores and the other that lets them watch TV sports or soap operas.

"He's saying all the things past management didn't say and doing all the things past management didn't do," says Ernest Levenstein, an analyst at Shearson/American Express. "This is a different company."

Better, Reichert no longer has Gulf & Western to worry about. The New York-based conglomerate has been liquidating its securities portfolio since Charles Bluhdorn's death, and a few weeks ago it unloaded its 2.5-million-share 21% stake in Brunswick.

Brunswick bought 1.2 million of the shares, chewing up about \$47 million of the company's \$70 million cash kitty, but reducing the outstanding shares by 10%. The remainder of the G&W shares went to institutional investors. If Brunswick is not entirely safe now, at least a would-be acquirer would have to start from scratch to acquire a position in the stock.

Brunswick's retrenching was begun under K. Brooks Abernathy, still

chairman, who was also CEO for six years until he handed over the top job to Reichert last spring. Abernathy, who took the brunt of the bad publicity surrounding the Whittaker takeover attempt, is soon due to retire when he turns 65.

Both Reichert and Abernathy had "golden parachutes" written into their contracts last year to protect them if anybody else takes a run at Brunswick. But Reichert keeps his fingers crossed. "To my knowledge, no one is even looking at Brunswick," he says. ■

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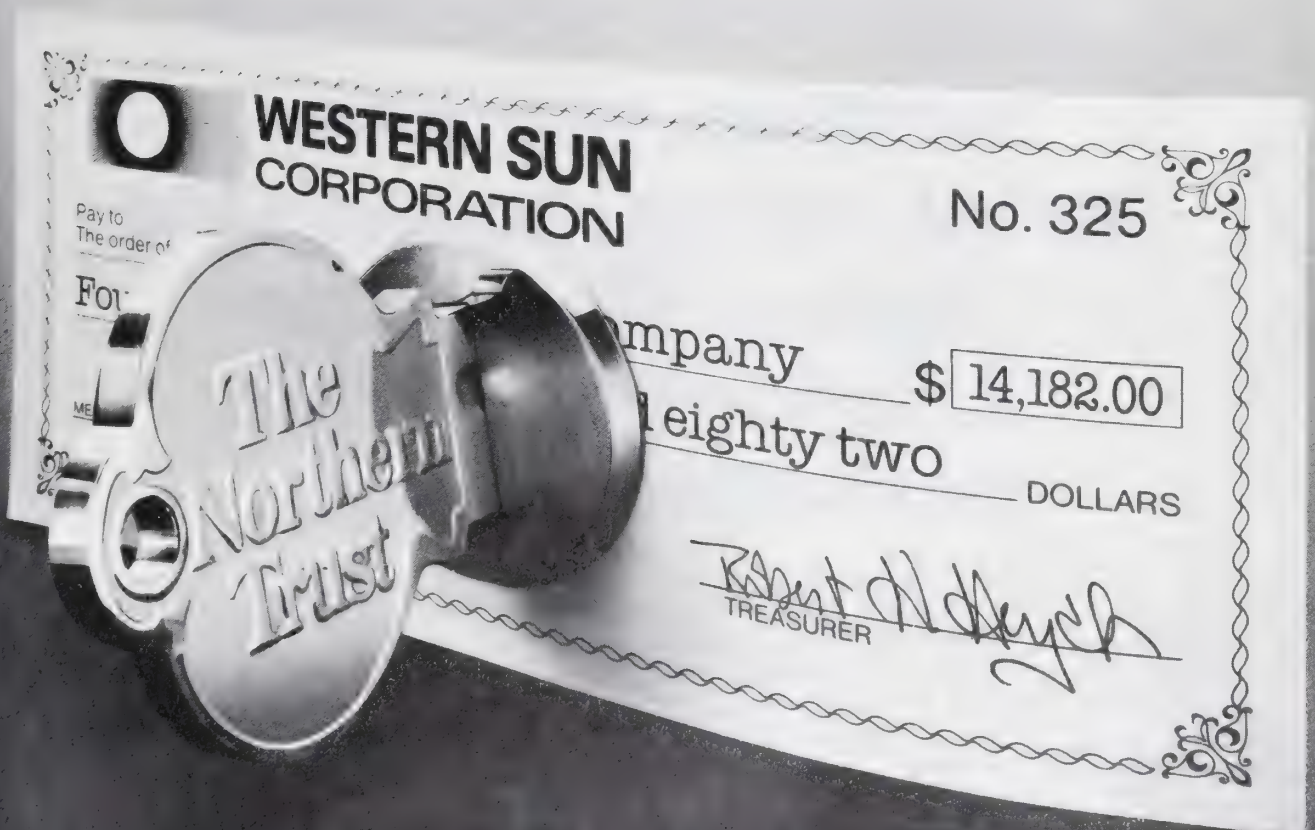
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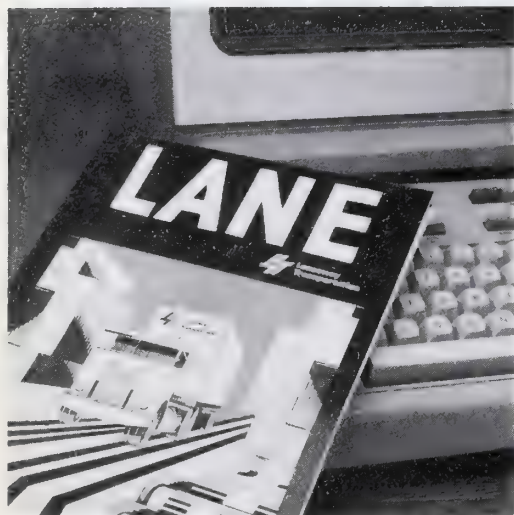
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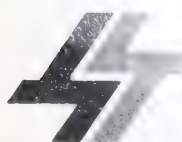
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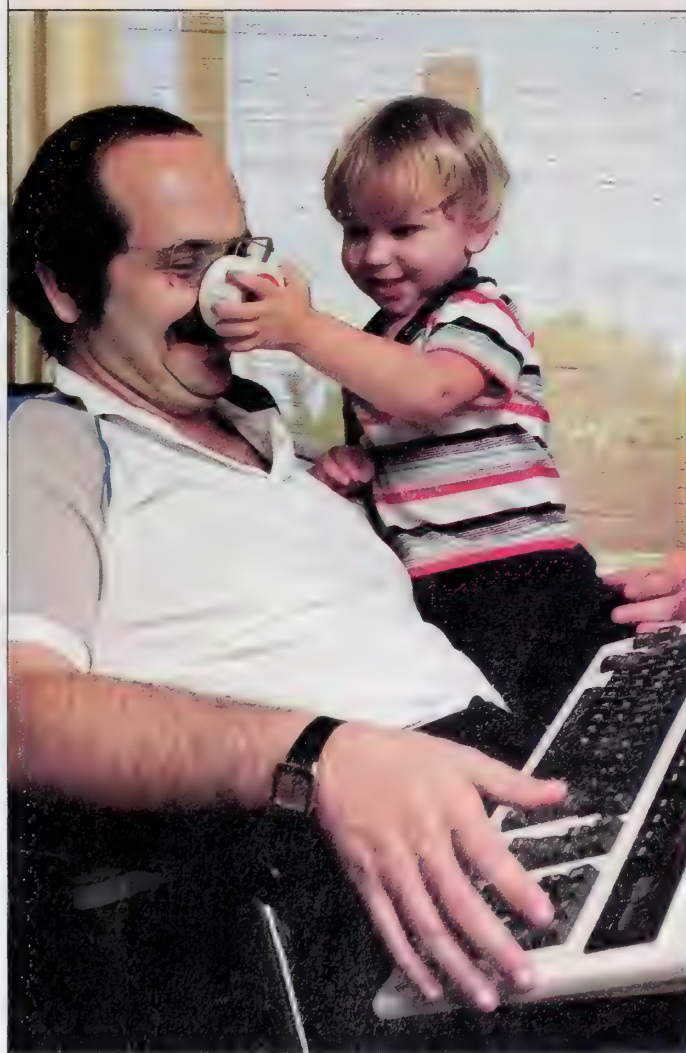
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Do you love the idea of saying good-bye to freeway traffic jams or crowded commuter cars and doing your work at home? Maybe you do, but maybe you really don't.

A job with a view

Chris Rutkowski and son, Lars, 2 years old
While Rutkowski's wife finishes her book, Rutkowski runs his computer software business far from the smog and heat. Most of his 42 employees telecommute from their homes, too.



**By Kathleen K. Wiegner
and Ellen Paris**

WE ARE WRITING this article in a stuffy Los Angeles office. It's 100 degrees outside. Thick smog. The air conditioner is broken, again. To get to and from this oven we drive endless miles over hot concrete, doing our bit for OPEC and the inner-city property speculators.

Wouldn't it be nice to work like Chris Rutkowski? Rutkowski is president of Rising Star, a fast-growing computer software company. Rising Star's offices are in gritty Torrance, Calif. A mere 3 miles away is Rutkowski's imposing Spanish-style home in lush Rolling Hills Estates, on the Palos Verdes peninsula. Rolling Hills is green, cool. While the baby-sitter herds his two small children and his wife word-processes

another chapter of her book on infants, is Rutkowski drudging in his office? Not at all. He generally stays at home and manages Rising Star's 42 employees with the help of his Epson QX-10 computer. Of his employees, all but 6 do likewise.

"I'd never work anyplace without a view," chortles Rutkowski, really rubbing it in, as he looks out on the Pacific.

Up that same coast, Ronda Davé gazes out on sparkling San Francisco Bay from the ninth-floor condominium apartment that she shares with over \$15,000 worth of home computer gadgetry. Davé, who holds a doctorate in educational psychology, runs a business providing consulting, technical editing and word processing for Bay Area graduate students who need a high degree of statistical data in their papers and theses.

As she talks, her computer whirs through statistical models while her printer clicks efficiently away in the background. Davé's programmer, working several miles away and also out of her home, is hooked into a Stanford University mainframe and may soon communicate directly with Davé's computer.

Welcome, then, to the wonderful phenomenon of telecommuting, which promises to change the daily lives of millions of Americans as radically as the automobile did beginning a half century or so ago. As with cottage industry of old, with telecommuting the job is coming to the worker rather than the worker to the job. It's early in the trend, but quite clearly something big is afoot. Further north of Davé's pad, at his home in tiny Reardan, Wash., Bruce Johnson does computer graphics design on his Apple II. Johnson says working at home like this is about the only way he can work: As the result of a high school football injury, he is confined to a wheelchair and finds conventional commuting virtually impossible.

Out in Minnesota, George Chamberlain taps computer programming instructions into the personal computer in his cell in Minnesota State Prison, where Chamberlain (who is part of a Control Data Corp.-sponsored rehabilitation program) has served 4 years of a 35-year sentence for sex offenses.

Telecommuting is as yet hardly a tidal wave. No one knows with any precision how many telecommuters there now are. But Jack Nilles estimates the telecommuter ranks at 10,000 to 20,000, mostly part-timers. Nilles is a senior research associate at the University of Southern California, and the person who claims to have coined "telecommuter" in 1973. He predicts that number could

swell to 10 million by 1990. The trend has grown important enough that the National Research Council, an arm of the National Academy of Sciences, will, for the first time, hold a two-day seminar on the working-at-home phenomenon in November in Washington, D.C.

What's so attractive about telecommuting? Ask one practitioner and you'll get one answer, ask another and you'll get a different answer. Some like it for the view. Others, like 60-year-old Marjorie Whitecross, like it because it keeps them mentally active (and earning some money) in retirement. Still others telecommute to spend more time with children and spouses.

Telecommuting can even bring a degree of family togetherness. "Last night," reports Jim Anderson, a telecommuting general partner in a venture capital firm in San Francisco, "my wife and I had a discussion about whether to standardize the format for our home computers. I can't believe we were having that discussion."

Lawrence Lerner says telecommuting has greatly augmented his productivity. Lerner, 59, runs his 200-employee architectural firm with the help of Altos computers installed in his homes in Manhattan and Beverly Hills. From his at-home screens, Lerner communicates with his office staff at their screens about everything from equipment purchases to zoning permits. The relevant data for all decisions flow effortlessly between screens. And, thanks to telex line connections, Lerner can hold similar on-screen conversations with his associates in Tokyo and Sydney.

"My work is more concentrated when I'm home," says Lerner. "When I'm in an office, I am too much at the mercy of silly conversations to be really productive."

San Francisco's Ronda Davé and graduate student-client Tom Glodek

Her \$15,000 system finally works, but only after seven months of lugging her equipment back and forth between home and suppliers. The servicemen, she says, "were novices."



Making steel in backyards is not feasible, as China's Mao learned. Nor, environmentalist fanatics to the contrary, can power be generated efficiently from little windmills and solar panels on roofs. But the U.S. economy is changing, depending less on heavy industry and more on information. John Naisbitt, author of the bestselling *Mega-trends*, estimates that around 60% of American jobs now involve handling information. And where information is the product, telecommuting comes into its own.

The real father of telecommuting is the microcomputer. The microcomputer and the intelligent terminal are both growing smarter and cheaper. With a decent micro or terminal, or both, any moderately intelligent, curious person can retrieve data, process it on site and send it to another computer without leaving his home—a portion of which the IRS probably allows him to deduct. Hardly a day now passes without the introduction of some new and usually useful computer gadget—from new software for investors to new autodialers so your computer can call other computers in the middle of the night.

Another important boost for telecommuting has been the rapid proliferation of intelligently organized, easy-to-access databases, which are, in effect, the semifinished materials against which many telecommuters apply their computers and energy.

Take Darcy Bolton. Bolton, a 46-year-old former lab technician, runs his real estate businesses from his home in Irvine, Calif. with the aid of his Vector Graphic 3 computer. Two years ago Bolton added a new business line: patent searches for local lawyers.

It works like this: Through his Vector Graphic, Bolton is able to tap into McLean, Va.-located Pergamon International Information Corp.'s database, which contains filings with the U.S. Patent Office as well as references to domestic and international patent law cases. Bolton pays Pergamon \$90 for each hour he is on line, tapping Pergamon's information. Bolton then charges his clients \$100 for a routine patent search—which Bolton says he can do in about 40 minutes or sometimes less. Sixty dollars' worth of raw material upgraded into an end product worth \$100, with the aid of relatively inexpensive equipment. Bolton says the patent searches easily gross him \$4,000 to \$5,000 a month, much of which is pure profit. Total cost of all his hardware: around \$13,000.

Operating on a more modest scale is Katherine Ackerman, who may exploit more databases than anyone. Ackerman, 27, is a former *Chicago Tribune* research librarian who left the paper to have a baby last October. Rather than fob off her baby on relatives or hired help, she set herself up at home as an all-around expert on databases. Ackerman is in effect a rent-a-researcher. She is like a Japanese samurai of old, with a computer for a sword. She hires herself and her IBM Personal Computer out to clients too small to fight through the growing thicket of electronic information. Thus a smallish advertising agency trying to win a tiremaker's account hires Ackerman to dig up tire industry statistics. Ackerman accesses the Disclosure database and gives the agency the figures it needs for a presentation.

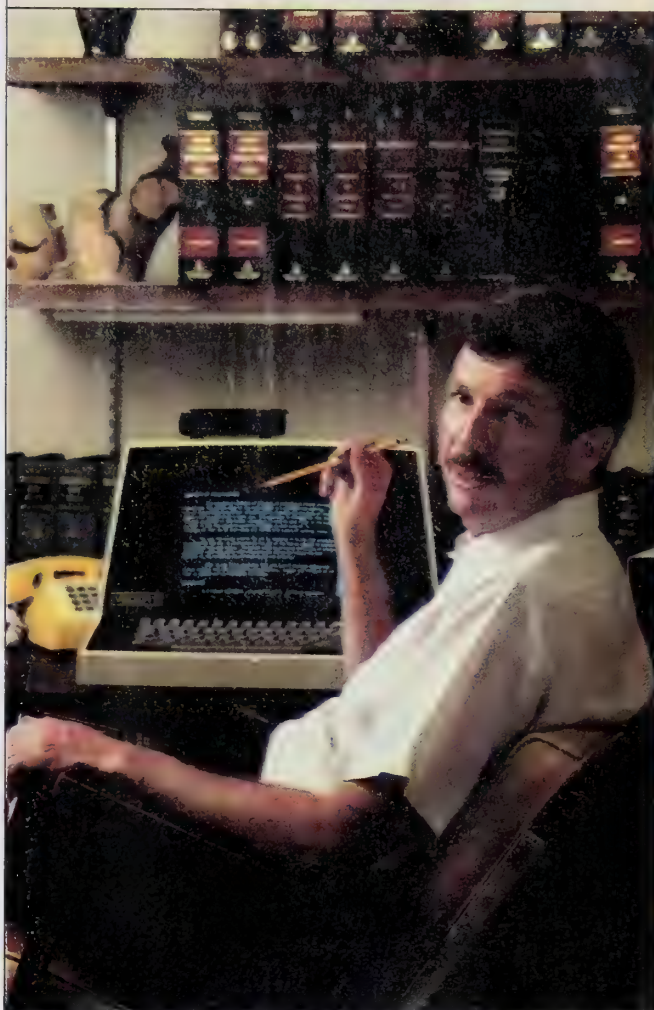
Tapping a base costs her anywhere from \$35 to \$95 an hour, plus another \$6 to \$10 an hour for telephone time. Ackerman bills these costs directly to her clients, adding her time at \$35 an hour. She says she averages 15 hours (\$525) a week and could work far more if she wanted.

"One of the best things about working at home like this," she explains, her voice rising over her baby's background screams, "is that if the baby does something cute I have the freedom to drop everything and take his picture, which I do a lot."

But not everyone loves the idea. The trade unions,

Irvine, Calif. patent searcher Darcy Bolton

By knowing how to massage the right database, Bolton can upgrade a \$60 hour to a \$100 hour with relatively inexpensive equipment.



already in decline in the U.S., see a new threat in telecommuting. Karen Nussbaum, 33, is the articulate founder of 9 to 5, National Association of Working Women, a membership organization for women office workers, which acts like a trade union but has no collective bargaining powers. Nussbaum claims that telecommuting can be a means of exploiting clerical workers—"like turn-of-the-century garment workers who ran sewing machines on their kitchen tables and were paid piece rates." As she speaks, Nussbaum grows indignant. "Even bathroom breaks can be on their own time," she huffs. Nussbaum says she wants home workers to be guaranteed the same rights and benefits office workers get.

"We think the opportunity for worker exploitation is rife with telecommuters," agrees Denise Mitchell, a spokeswoman for the Service Employees International Union, which represents 50,000 clerical workers, mostly women. "We think it [telecommuting] should be banned."

Trade unionists might not want to admit the fact, but telecommuting is opening up vast tracts of human potential. It allows many people, who have previously been doomed to lead unproductive lives, to blossom.

Old people, for example. Two years ago Eric Knudson, owner of a smallish software company called ACS America, was having trouble keeping his programmers. So he opened Wave III in Sarasota, Fla. Object: to train retirees to program computers for his own and other firms.

Chicago research librarian-turned-database-samurai Katherine Ackerman and son

Database costs at \$35 to \$95 an hour, plus telephone time at \$6 to \$10 an hour, plus her time at \$35 an hour work out to a nice income and time to photograph the baby, which she does a lot.



Knudson gave the retirees a free, three-month programming course and a job—at \$90 a day for a preset programming quota—to those who successfully completed the course. Knudson says Wave III received over 6,000 applications; 100 people were accepted and finished the course. Knudson's original company, ACS America, has since run into cash problems, and Knudson has closed Wave III. But, says he, "That market is so ready for something challenging to do. . . ."

Or take the handicapped, another group well served by telecommuting. Northbrook, Ill.-based Lift, Inc. is a nonprofit, non-government-funded organization founded eight years ago. Lift trains severely disabled people—paraplegics, quadriplegics, men and women with polio, muscular dystrophy and spinal injuries—to become computer programmers. Lift gives the trainee an IBM model 3270-series terminal and six months' in-home training. When the six months are up, Lift hires the trainee for a year, contracting his services out to one of the 40-odd major corporations Lift works with. Generally the trainee becomes a regular employee of the company when the year is up. Allstate Insurance is working with its seventh disabled telecommuter from Lift, Standard Oil of Indiana its fourth. "It just revolutionizes their lives," says Lift cofounder William Woerner of his graduates. "[Programming] becomes their whole world."

For all its charms, telecommuting is obviously not for everyone. It is not, for example, for those who need the discipline of the central office to keep them from pruning the fruit trees or painting the shed.

A more pressing problem is this: The electronic workplace does not always come in—or stay in—sound working

order. San Francisco's Ronda Davé, for example, shares her condominium with the tools of her trade: an Altos computer, an NEC printer, two Televideo terminals and sundry software programs, all of which she purchased separately. Because she bought them separately, the pieces had to be assembled.

That's where Davé's troubles began. First, she had to wait three weeks for Altos' technicians to arrive. "They were novices," says Davé contemptuously. "They installed the system improperly. Then, starting in May, we began having funny problems with the word processing software. Then the printer wouldn't function properly. Then, after two or three months, it [the printer] started jamming."

Worse than the jammed printer, manuscripts that were being laboriously word-processed would simply disappear from her system, wiping out costly hours of work.

So Davé and her two assistants lugged the printer to ComputerLand. Then she called in an NEC repairman to fix the printer, all to no avail. Finally, seven months after she purchased her equipment, ComputerLand discovered (and eventually fixed) a fault in the software.

Moral: Before you buy, make clear, in writing, your suppliers' obligations to install, start up and service your equipment. Like most serious telecommuters, Davé strongly recommends protecting oneself with a service contract. These can usually be purchased for around \$1,000 for a reasonably sophisticated system.

To put it bluntly, then, telecommuting is not without its drawbacks.

With few exceptions, today's telecommuters are highly innovative and motivated owner-operators like Darcy Bol-

ton and Kathy Ackerman. They are entrepreneurs essentially, people who might have gone into business for themselves even without computers. But for telecommuting to swell to the 10 million presaged by USC's Jack Nilles, America's big corporations will have to climb on the trend. Will they? The answer is: probably, but slowly and unevenly.

For one thing, there are still many technical bugs to be sorted out. In 1978 Chicago's Continental Illinois National Bank began a small experimental program of farming out secretarial work—dictation and letter writing, that sort of thing—to women in their homes. The women would call in, receive their assignments from tape recordings, complete the work and send it via computer to the bank. The bank was flooded with applications for the program; workers loved it. But the bank closed it in August 1982. The problem: Much of the equipment didn't mesh, requiring supervisors to step in. "So many people were getting involved," says Elizabeth Carlson, who oversaw the program, "that it was not cost effective."

But Carlson says the bank believes the problems have been worked out and is currently looking at resuming the program this year.

Another hurdle to corporate use is the Internal Revenue Service. Like the trade unions, these Washington bureaucrats see telecommuting as a threat to their livelihood, which is supposed to be in protecting the public. Corporations would be more interested in telecommuting if they could reduce such employment costs as Social Security payments, which they could do if their telecommuters were independent contractors. But an Internal Revenue Service spokesman warns that if a "continuing employee-employer relation exists," and if the employer supplies the employee's tools, including at-home telecommuting equipment, then, for Social Security purposes, the telecommuter is considered a regular salaried worker and is taxed at the SSA's full whack, regardless of where he works. Companies might be able to avoid this problem by selling employees the equipment on easy terms, assuming the tax collector did not construe the favorable terms as taxable income to the workers.

Probably the greatest hurdles, however, have to do more with industrial culture and psychology than economics. In 1981 Xerox hired APECS, a Dallas-based research outfit, to study telecommuting. What did the survey find? "I don't see a large number of people going to work at home full time for all their working lives," researcher Joanne Pratt told us, reflecting on her findings. "But I do see a large number of people taking advantage of this [telecommuting] for shorter periods of time—half a year, perhaps, or a couple days a week."

Don't expect to find middle and upper-middle managers among the telecommuters. Why not? Probably because they are either insecure in their jobs or still clawing their way up the corporate hierarchy (or both). The corporation—with its complex reward system of carpeted offices, secretaries and the like—is their culture. The fear of leaving it probably outweighs the advantages.

Put another way, most people are more comfortable in crowds. They crave and require peer approval. Constantly.

Margrethe Olson, a New York University business school professor, puts it this way: "Culture changes more slowly than technology."

In a pioneering 1976 book on telecommuting's potential influence on decentralizing American industry, USC's Nilles presented research showing that corporate managers feel far less confident about decisions reached using telecommunications (the phone, say) than they feel about decisions made in the course of face-to-face meetings with

colleagues—*despite the fact that the decisions are almost always identical*. They prefer eyeball-to-eyeball to voice-to-voice. As a result, corporate telecommuting will probably come in the form of a compromise, as it has already on a small scale at Rockwell International. Last year Rockwell's Semiconductor Device Division, based in Newport Beach, Calif., hired 18 semiconductor designers in San Diego. Rather than drive the 80 miles up to Newport Beach, or move there, the designers commute to a small facility near their San Diego homes. From this convenient outpost they telecommute to Newport Beach. Rockwell was thus able to hire on new workers without all the associated relocation costs and the workers have been content to remain in their San Diego environment. "We are all very happy with this arrangement," says the San Diego operations project manager, Dan Pearson.

In this way the new technological possibilities will begin to combine with the deep-seated psychological realities. Or, as telecommuting architect Larry Lerner puts it: "Lunch with other executives or people from your com-

Clerical workers' group 9 to 5 founder Karen Nussbaum
With labor unionists, Nussbaum argues that telecommuting will exploit women working at home. She compares it to the garment workers of the early 1900s, who were paid piece rates.



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pany is still an important ritual. You cannot isolate yourself totally."

Lerner thinks telecommuting will grow and that small businessmen will be the leading edge: "Cutting myself out of the daily office routine was a real advantage to my company. I wanted to train a new generation of executives, and I used this as an excuse to put them on their own while I was in close touch but out of sight. And it's worked beautifully. They now make more of the everyday decisions without saying, 'Gee, what would Larry think?'—which was my main motivation in the first place."

If all this makes telecommuting sound marginal, remember this: Back at the turn of the century nobody—not sage, not simpleton—had any notion of how drastically the automobile would transform the economy and the society. Who could have predicted the effect of the automobile on the American landscape, on foreign policy or on the social mores of a newly mobile nation? Perhaps energy-efficient telecommuting, by making possible large-scale home work, will reverse many of these trends, bringing families closer together. The computer revolution is in its early stages. Where it will go, no man can say. But here are a few possibilities:

The University of Southern California's Nilles, estimates that the U.S. could eliminate 74 million barrels of gasoline imports annually if about 14% of the work force shifted to telecommuting. If those figures are right, the U.S. would eliminate its gasoline import requirement with about 13 million new telecommuters. Again, that won't happen soon. But obviously telecommuting is bad for energy producers, good for most everyone else.

Or think about urban land prices, which would probably fall relative to rural and suburban land prices should large numbers of workers telecommute. By the same token, the spread of the automobile enabled people to live farther from work, driving down the relative cost of urban land, driving up the relative cost of suburban land.

There is evidence this process is already under way as our society moves from a hard economy to a soft economy, from heavy industry to knowledge- and service-based industries. In a startling article in July's *Scientific American*, Larry Long and Diana DeAre, two U.S. Bureau of the Census demographers, presented their analysis of the 1980 census. They reported that for the first time since the decennial census was instituted, in 1790, America *ceased urbanizing* in the 1970s. Why? Certainly not because more people are taking up farming. The people who moved to the rural areas to take up new jobs there do not conform to the ordinary image of the rural population. Rather than being farm workers, they are in many instances either workers with the kind of technical training required in modern industry or professionals." For better or worse, the hick has become a sophisticate. In an oblique reference to telecommuters the demographers add:

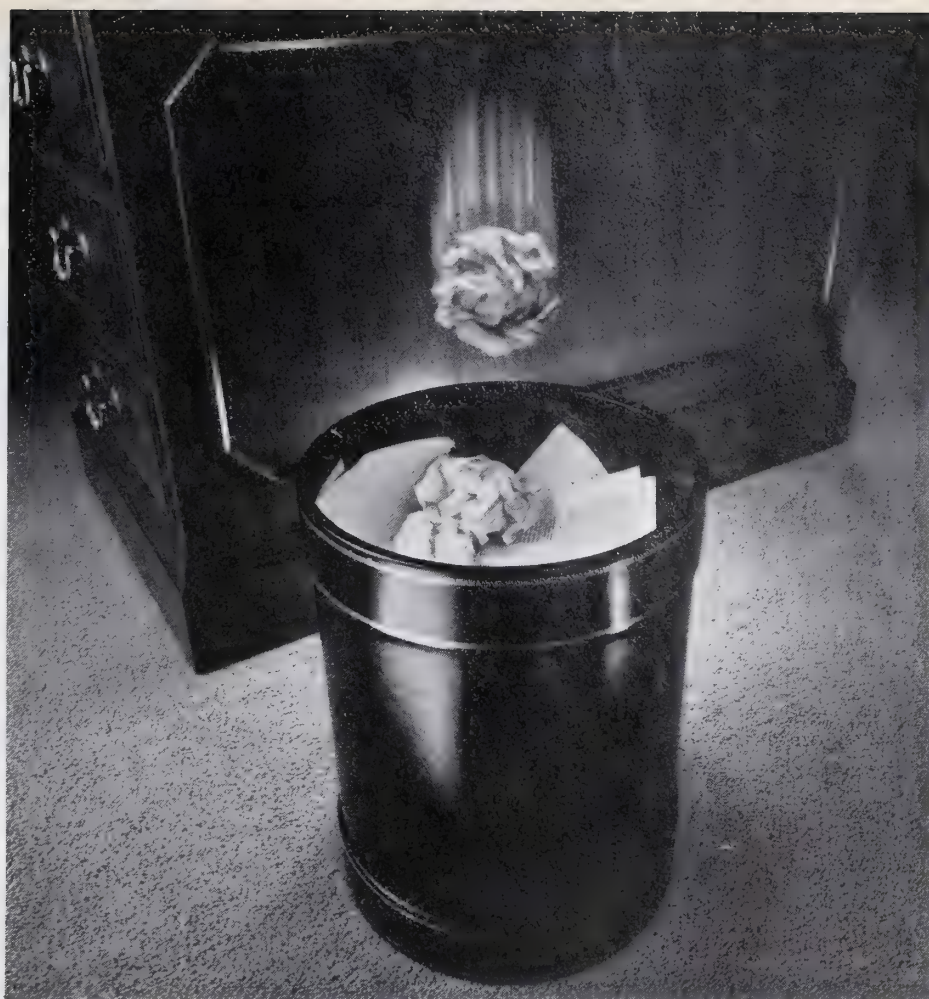
"The new rural demographic concentrations appear to represent small centers of urban culture transplanted to the countryside and enabled to survive by recent advances in communications, transportation and methods of industrial production."

When the BMWs and new-wave restaurants start invading your local farm villages, you will know the telecommuters are taking over. ■

Architect Larry Lerner, telecommuting coast to coast and to Japan

Working from homes in New York and Los Angeles has boosted his productivity. "When I'm in one of my offices, I am too much at the mercy of silly conversations to be really productive." But people still need to meet face to face. "Lunch with other executives or people from your office is still an important ritual."





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There's a nice little irony: In the new age of the saver, S&Ls and savings banks could become endangered species.

Change or die

By Ben Webberman

IN THE DAYS when savers subsidized borrowers, running a savings and loan or a mutual savings bank* was one sweet deal. Take in deposits, pay out a

**Historically, savings banks have had somewhat broader lending, service and investment authority than S&Ls. But with deregulation, the distinction between them has become increasingly blurred.*

piddling 4.5% or 5.5% and put the money into 6% home mortgages or 6% government bonds. A nice, comfortable way to make a living.

Those days are gone forever, and if the thrifts don't move fast, they soon will be, too. Overall, the nation's approximately 4,200 thrifts were in the red more than \$5.5 billion last year. This year the industry may show a small profit, but hundreds of individual institutions may still be losing

money. According to Gilbert G. Roessner, chairman of City Federal Savings & Loan of New Jersey, the traditional savings and loan is an anachronism. It's ill-suited to the needs of today.

Three years ago, Roessner converted City Federal to stock ownership—one of the first thrifts to do so. Since the \$33 million public offering, assets have grown from \$2.1 billion to \$5.8 billion. More important, return has increased from 15 cents on every \$100 in average assets to 62 cents. City Federal has also expanded into commercial lending, securities and insurance brokerage, and trust services. Thrifts that survive, says Roessner, must become hybrids: part depository institution, part brokerage house and part life insurance company.

Some thrifts, determined to avoid long-term, fixed-income risks, are turning themselves into what amounts to mortgage banks. For example, Savings Bank of Puget Sound in Seattle, which converted to stock ownership in 1982, went this route profitably. It makes 30-year fixed-rate mortgage loans and then sells them, usually within two months, to agencies such as the Federal National Mortgage Association and the Federal



Chairman M. Todd Cooke of Philadelphia Savings Fund Society
What makes sense to do isn't always easy to do.

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Home Loan Mortgage Corp. Then it services the mortgages for a fee, exactly as a mortgage bank (FORBES, Aug. 29). Result: While many thrifts struggle to turn a profit, Puget Sound's net worth is 15% of assets, far more than the federal government's 3% benchmark.

In Bridgeport, Conn., People's Savings Bank's \$233 million stock portfolio—about 8% of assets—provided most of the bank's net income over the past couple of years. Deregulation has also meant new opportunities. The Garn-St Germain Act of last October, among other things, allows thrifts to make commercial loans. One thrift that has invaded the bankers' turf is Dime Savings Bank of New York, the ninth-largest thrift in the country.

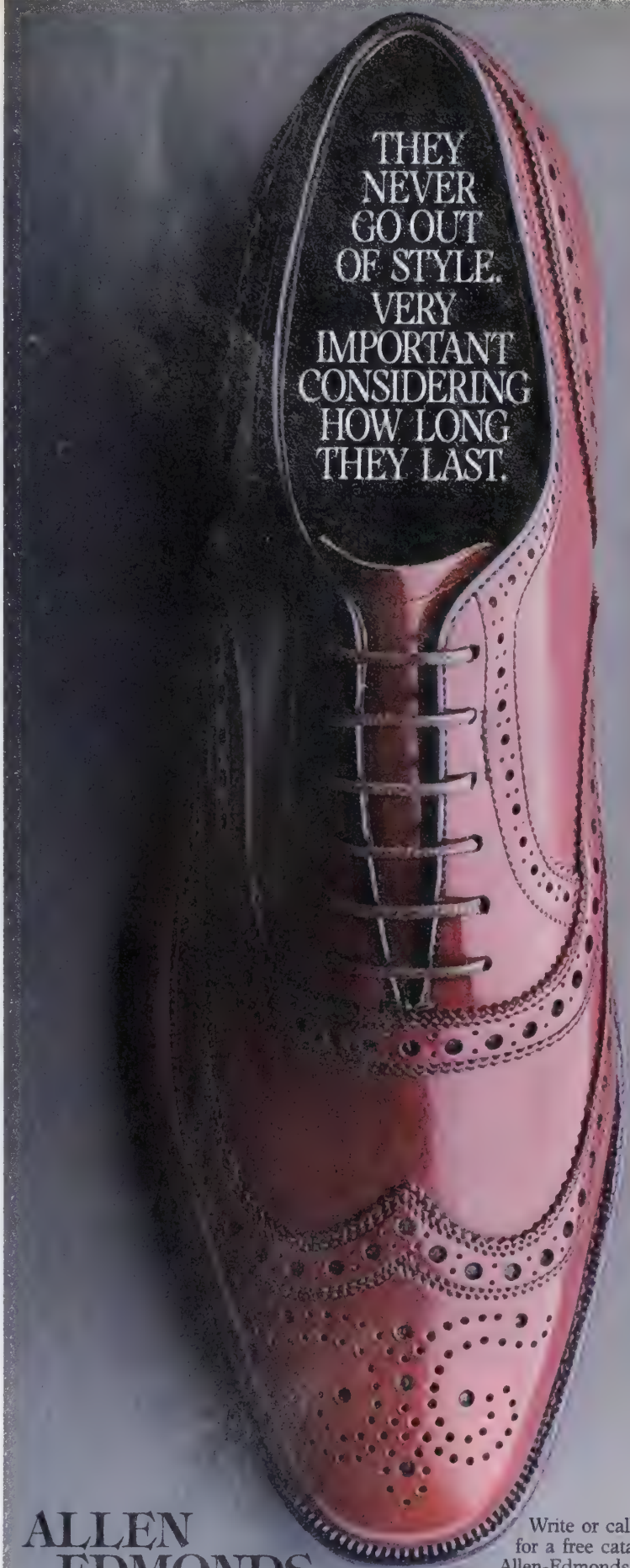
But it takes capital to do all these things, and that's why City Federal's Roessner is for conversion to stock ownership. It's the quickest way to get new capital. The only other sure way, of course, is the traditional

Now that they are paying market rates, thrifts can no longer easily pile up fat surpluses. The quickest fix is an infusion of public money.

way—savings deposits. These days, with everyone from Sears, Roebuck to U.S. Steel after the depositor's dollar—and paying top price for that dollar—thrifts must offer yields unthinkable in the old days when government regulations held payment at 4.5% to 5.5%. Now that they are paying market rates for their money, the thrifts can no longer easily pile up fat surpluses. The quickest fix is an infusion of public money.

Unfortunately, however, the stock market isn't very interested these days. When City Federal converted, back in 1980, its timing was perfect. The industry was not yet into its worst recession since the Great Depression, and the markets were much more receptive.

Currently, the nation's oldest and largest mutual savings bank, the Philadelphia Saving Fund Society, with just under \$10 billion in deposits, is trying to convert. Chairman M. Todd Cooke wanted to sell 32 million shares at \$15 to \$20 each. He hoped to raise up to \$640 million to finance diversification and to acquire other savings banks or S&Ls, even commercial banks. But the securities have not yet been sold or priced because the market has been spooked on the well-publicized ailments of the thrifts. Cooke is waiting for better times. ■



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John W. Teets
Chairman of the Board
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For a copy of the 1982 Greyhound Annual Report, write the Public Relations Department, Greyhound Tower, Phoenix, Arizona 85077

Unlike clay, which takes shape quickly, wood resists the chisel and the adze. It takes muscle and time to pare away the husk and reveal the heartwood. It takes the ability to visualize in the third dimension and the patience to go slowly and thoughtfully about the task. And then, in a single instant, there is a moment when form and essence mingle, and life seems to spring from the wood.

The result is something greater than the combined skill of the artist or the elegance of the raw material. The result is something different and enduring. Something imbued with spirit.

As the new chairman of The Greyhound Corporation, I commissioned the wood carving the cover of our 1982 annual report as much for symbolism as its beauty. It represents what we are doing at Greyhound... honing and refining the body corporate... paring away the excess and revealing the essential strength and endurance that lie beneath.

The Greyhound Corporation today is not what it was a year ago, nor what it will be two or five years or a decade from now. We have made Greyhound leaner and swifter through disposition of a number of subsidiaries and, in the months



come, we will be adding to its size and diversity as well, giving it the chance to stretch its abilities and run, full out, wherever imagination and excellence can take it.

There is nothing haphazard about these changes, however. At Greyhound, we operate in the conviction that *planning begets progress!* And so, before we turn our hand to any aspect of shaping the corporation into a more vibrant, dynamic organization, we immerse ourselves in meticulous planning. There also has to be discipline. The hard discipline of assuming respon-

sibility for decision-making, for profitability, for managing our own future.

This wood carving of the greyhound has evoked an unusual response from people. One I think is more than just artistic in nature. It has something to do with a respect for excellence, with a recognition of high courage and determination. I like to think The Greyhound Corporation embodies that same spirit!

The Greyhound Corporation

Doctor Solondz is guru-prone. He's sorry he picked Eliot Janeway.

Suing the guru

By Richard L. Stern

GARY SOLONDZ is a 38-year-old oral surgeon from Catskill, N.Y., some 30 miles south of Albany. He's quite obviously in awe of father figures. A pendant dangles from his neck displaying a photograph of his spiritual guru, Bhagwan Rajneesh. And his outfits tend to red and "colors of the sun" in keeping with the teaching of his master's Oregon-based cult.

When it comes to investments, too, Solondz seeks gurus. A few years back he seemed to have found one, the self-congratulating, self-proclaimed "adviser to politicians," Eliot Janeway. Now disillusioned, Solondz is suing his onetime idol. In legal documents and an interview with *FORBES*, Solondz weaves a bizarre tale—untested by the courts—that Janeway, through his attorney, vigorously denies.

According to the dentist, he first became interested in the economic seer through Janeway's columns in a dental publication. He was impressed that Janeway had been correctly predicting that gold prices were going to gain. Solondz sent away for Janeway's \$250-a-year newsletter, and then later Janeway's \$1,000-a-year consultation service. That, according to Solondz, combines a special newsletter with the opportunity to meet with the celebrity personally. Thus came what Solondz now describes as his first session with Janeway, around

June 1980. Meeting the great man in Janeway's luxurious East Side Manhattan townhouse, Solondz was impressed. After all, this was Eliot Janeway in person. Janeway, Solondz told *FORBES*, advised him to sell off most of the stocks in his Merrill Lynch portfolio, which he claims were worth about \$50,000.

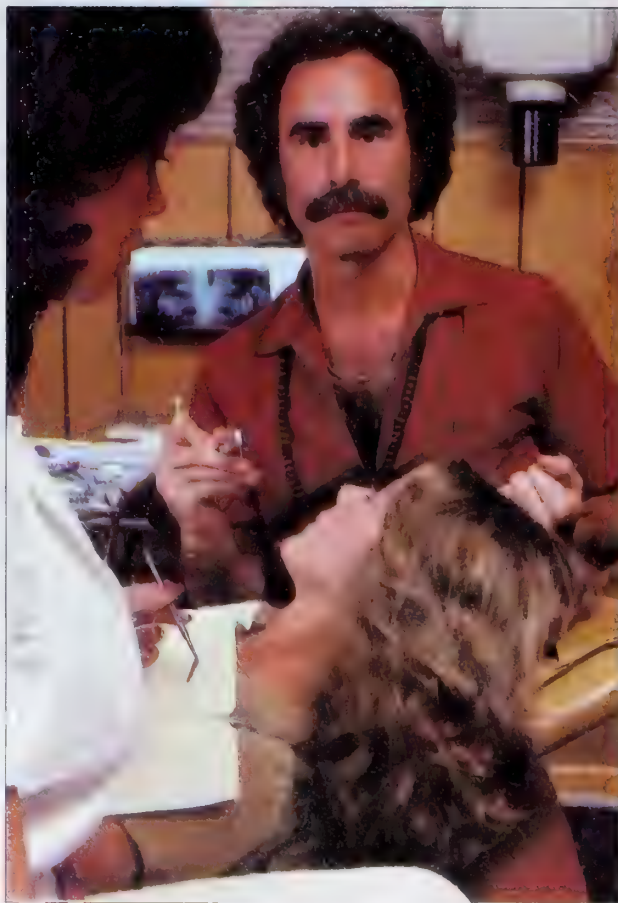
Janeway allegedly told the dentist he "was not lawfully authorized to

accept or invest any funds" for him. Meaning he wouldn't manage money for Solondz? Well, there was a way. Janeway, according to Solondz' complaint filed in November 1982, told the dentist the small Boston-based Capitol Bank & Trust Co. would be his "investment agent of record. However, both Janeway and Janeway Corp. would fully and carefully manage" the dentist's investments and accounts "pursuant to a scientific and comprehensive investment plan. . . ." Solondz told *FORBES* he opened a personal account and a pension account for himself and his employees.

Indeed, a letter from Capitol trust officer Alan Newton to Solondz, dated July 31, 1980, states: "I understand that you wish to retain the services of Mr. Eliot Janeway as your independent investment counsel. I am advised that Mr. Janeway will assess fees on a quarterly basis at the rate of 15% of the realized profits." The letter also says Janeway will assess no fees if there are no gains. That was in addition to the standard 1% fee on assets held by Capitol.

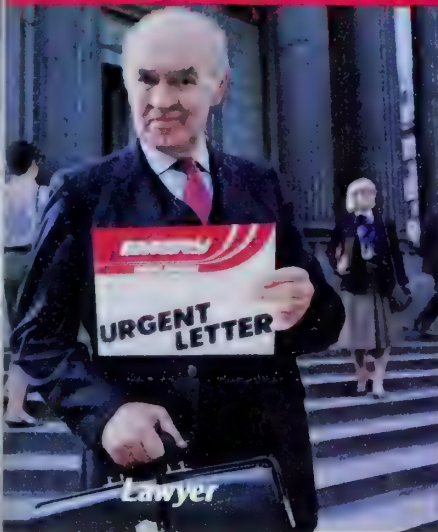
Solondz told *FORBES* that one of Janeway's first moves that summer was to advise him to buy South African gold stocks. If so, initially, Janeway was right. Stocks like Grootvlei Proprietary Mines Ltd., Venterspost Gold Mining Co. and Harmony Gold Mining Co. went up. In an Aug. 26, 1980 newsletter, Janeway said: "Resist the normal bull market impulse to cash in profits and take equity out of profitable gold stock positions; reappraise the bull market as still in a cheap and early phase, safe for carrying positions as collateral for bank loans. . . ."

Solondz maintains he understood that to mean using the gold stocks in his personal account as collateral to borrow money to buy more gold stocks. He told *FORBES* Janeway confirmed this in a conversation, saying that high dividends from South African gold stocks would carry the interest on the loans. Solondz says he obtained two loans totaling \$80,000 from Capitol Bank & Trust. One of those loans supposedly came after Janeway lectured the dentist long and hard that you don't tell a bank you want a loan to buy stocks. "You tell them



Dentist Gary Solondz
Impressed no longer.

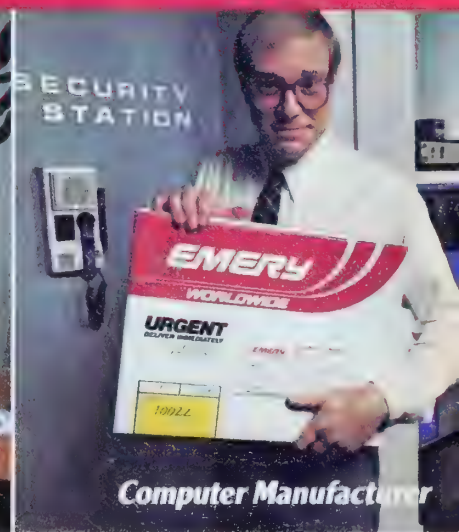
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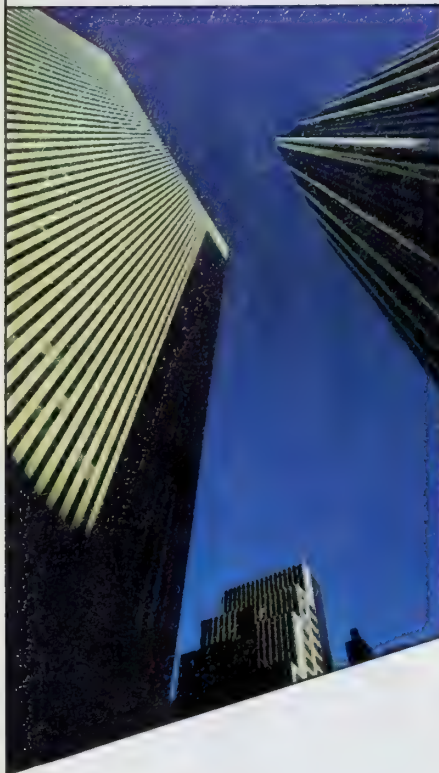


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1-800-243-LOAN.

you're building a garage, buying real estate or adding on to your home."

But instead of buying more stable gold stocks, the dentist claims in his suit, he was put into highly speculative gold stocks and options on gold stocks. As the gold markets collapsed, so did his portfolio.

Solondz says he panicked. "I didn't know what to do." He told FORBES the pundit told him: "Why don't you just go pull teeth and leave the investments to me?"

But as the portfolio values dropped, Capitol demanded more collateral, according to letters filed in evidence. In July 1981, the record shows, Janeway informed Solondz he was severing his own connection with Capitol Bank & Trust and moving to Freedom Savings & Loan Association in Tampa, advising Solondz to take similar action. Solondz told FORBES that Janeway promised to arrange a collateral-free loan from Freedom to pay off the \$70,000 he still owed Capitol, but, instead, Freedom offered him only a secured, \$25,000 loan. After that, Solondz reportedly decided that Janeway was "double-talking" him.

And what does Janeway say about the allegations? An assistant told FORBES Janeway wouldn't comment and referred questions to his attorney, Daniel Crupain, who denied the charges categorically as "a lot of nonsense." Janeway never bought or sold anything with Solondz' money, Crupain said; that was done through the bank. The charges, he says, are simply an attempt to "sue a person with a famous name and shake him down for a lot of money. . . . This fellow is seeking to make extractions from his [Janeway's] teeth."

Did the dentist lose money? It appears so. He blames Janeway. Janeway's lawyer replies that if anyone was to blame it was the bank or the investor himself. At any rate, Capitol has settled for \$35,000, says Solondz, and has been removed from the suit. Janeway? He has a new sideline—doing radio commercials for AT&T in which he is identified as a distinguished economist. The commercial ends:

"Mr. Janeway, is the stock market going up or down?"

"Yes," replies Janeway. "But not right away." ■

There's a subtle tug-of-war going on over the remaining assets of Baldwin-United. Whom do you bet on? The average annuity holder or the big bank creditors?

Who owns MGIC?

By Richard L. Stern
and John Heins

AFTER ALL, said the Wall Street brokers who pitched \$4 billion in Baldwin-United Corp. single-premium deferred annuities (SPDAs) for fat commissions: What could be safer than an annuity? In July, much to the horror of the nearly 174,000 investors who had bought the brokers' spiel, the insurance commissioners of Arkansas and Indiana took control of the floundering Baldwin in-

surance companies that had sold the annuities. They froze the assets, locking in the annuity holders who couldn't get out as withdrawals began to outpace SPDA sales. Those locked in may never get out whole. The portfolios behind the remaining annuities may be worth perhaps 80 cents on the dollar, part of it in Baldwin subsidiary paper that had been stuffed in there by former Baldwin-United CEO Morley Thompson (FORBES, Dec. 20, 1982).

Investors had thought they were buying a high-interest product with a



Edwina, student of music, talking about her father, Rob Jenkins, national sales manager (adhesives division) for Henkel Chemicals Ltd., London.

"As far as Dad is concerned, Henkel plays first fiddle."

"I am a student at a music college in London, and I'm tremendously enthusiastic about my studies and playing my violin. But I have to admit that the enthusiasm I have where my music is concerned doesn't compare with the feelings my father has for his job. Just listening to my friends talk about their fathers' work tells me he's unusual in that respect.

In fact, his job as a sales manager for Henkel Chemicals is also his hobby. However, there was a time when things were different. That was before Henkel Chemicals took over the company he was working for, which produced adhesives mainly for school and domestic use.

In 1972 Henkel came along with all their

experience as Europe's largest manufacturer of adhesives, and suddenly my dad found his job much more exciting and rewarding.

As you can see, I'm fairly well informed about dad's work. That's because he plays golf every weekend and I caddy for him. That's when he likes to talk about his work with Henkel. I spend hours hearing about Henkel and its adhesives. In exchange, daddy is just as prepared to listen to me, often for hours on end, when I am playing my music. On



evenings like these it's not Henkel and its adhesives that play first fiddle, it's me."

My Dad Rob

Henkel Chemicals Ltd., London, is one of more than 100 companies of the Henkel Group, situated in more than 40 countries. Worldwide sales over 9 billion DM. 34,000 employees. Headquarters Düsseldorf, Federal Republic of Germany. Product range includes laundry products, household cleaners, cosmetics, adhesives, industrial cleaners, oleochemicals, auxiliary products for textile and leather industries. Over 8,000 products for all walks of life.



Chemistry working for you.

Baldwin shareholders are represented by Victor Palmieri, and the creditors have retained those clever folks at Lehman Brothers Kuhn Loeb. By contrast, the annuity holders have no one to speak for them but the relatively slow-moving and unsophisticated state insurance commissioners.

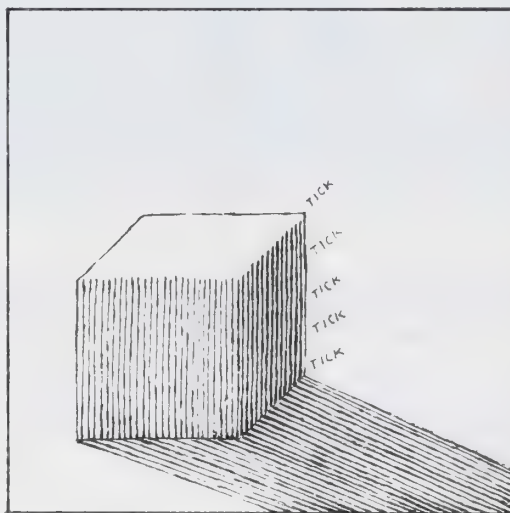
few favorable tax wrinkles that otherwise was almost as redeemable as a money market fund. Now, it appears, it could be years before they can get all their money back. Arkansas and Indiana, backed up by the National Association of Insurance Commissioners, are working on a plan to try to make annuitants whole.

But what type of plan can protect annuity holdings backed by partially insolvent firms? Likely, annuity holders will be able to withdraw part of their money. Also, annuitants may be given the option to borrow funds from their own annuities, allowing them to keep some of the annuity tax benefits without liquidating the insurance company assets. Ideally, but not currently promising, the insurance commissioners are hoping for a corporate white knight to buy up or reinsure the Baldwin companies. Potential suitors include other insurance companies, with a vested interest in avoiding the potential industrywide shock of the Baldwin-United companies' failure. There is hope, but there are still problems.

Solid portfolio valuation figures cannot yet be obtained from state insurance officials. But one expert estimates the various assets of the Arkansas companies, which have written most of the SPDA business, as follows: Cashable securities amount to about 58 cents for every dollar; an additional 20 cents, he says, are in illiquid but valuable assets; and the remainder is in obligations or equities of Baldwin subsidiaries, paper of very questionable worth—anywhere from 2 cents to 15 cents on the dollar. This overvalued subsidiary paper was substituted for annuity holders' cash, which in turn was used primarily to purchase MGIC Investment Corp., the giant mortgage reinsurance outfit (see p. 41). Any way you slice it, assets seem to be something less than 100 cents on the dollar.

Where do the annuitants go for redress? There are, of course, insolvency funds for annuitants, but in only approximately 34 states. Unfortunately, Arkansas isn't one of them.

These insolvency funds would supposedly make annuitants whole (FORBES, May 9). But wait. Things aren't quite that simple. Some guaranty fund members may soon have legal means to wriggle out. Florida Insurance Commissioner Bill Gunter, in a letter to agents in his state, recently warned that the courts ultimately must decide whether Baldwin-type SPDAs are covered by the insolvency funds. The question has been raised by an SEC investigation to determine whether the SPDAs are, in fact, annuities and not unregistered securities. If they are securities, they are considered investments and therefore probably will not qualify for coverage. Similar rumblings have been heard in other states.



Let's say they do qualify. Unlike FDIC or SIPC insurance, there is no actual cash in most of these state funds. Insurance companies would be assessed a percentage of the annuity premiums they sell each year in a given state. But the maximum assessment in Oregon, for instance, is only 2% per year; Florida, just 1%. In Indiana, says Loren Meltzer, an attorney working with the insurance commissioner's office, if there is a 20-cent shortfall, it could be 20 to 30 years before that state's fund would make annuitants whole. Besides, there may be an easy out for insurance companies: Stop selling SPDAs in states

making assessments. The annuities, after all, are low-profit products that only Baldwin had made look highly profitable through highly questionable accounting and tax procedures. So annuitants may need a miracle to get out whole anytime soon.

Morley Thompson, the man who for a long time made this jerry-built structure look solid, is long gone. In his place as president and CEO is the smooth salvage artist Victor Palmieri. But still around is the public relations firm that helped Thompson keep much of the media and the financial community in the dark, Kekst & Co., Inc. Neither Palmieri nor Kekst would comment directly on the fate of the annuitants. It's understandable. Palmieri's hopes of rebuilding Baldwin depend on his hanging on to

MGIC, the best thing he has got. But MGIC is owned by a Baldwin subsidiary called Balunit. Ownership of Balunit, in turn, is the chief asset of the annuity-selling insurance subsidiaries taken over by Arkansas and Indiana. In response to FORBES' questions, a Kekst spokesman seemed to want to have it both ways. On the one hand, the insurance companies were now out of Baldwin's hands. On the other hand, he said, Baldwin-United continued to control MGIC. So who owns MGIC? Aha, the key question.

Baldwin shareholders are represented by Palmieri, whose personal stake takes the form of warrants on Baldwin common.

The creditors have retained those clever folks at Lehman Brothers Kuhn Loeb. By contrast, the annuity holders have no one to speak for them but the relatively slow-moving and unsophisticated state insurance commissioners.

But the annuity holders may find salvation in court. Arkansas and Indiana could contest in the courts whether the annuitants, not Baldwin-United, actually own MGIC. That just might give the annuitants, not the shareholders and creditors, the upside in any turnaround of MGIC. After all, it was the annuitants who were promised the sure thing. ■



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The Ljungstrom[®] heat exchanger helps a utility, refinery or process plant cut fuel consumption by up to 25%. Heat that would normally be lost through the smokestack is recovered and sent back to do more work. Fuel savings are about 1% for every 45-50°F increase in combustion air temperature.

In fact, over the past five years, the amount of energy saved by Ljungstrom air preheaters around the world equals 150 million tons of coal, 190 million barrels of oil and 1.4 trillion cubic feet of natural gas. In the

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If an investor loses all his money on a new stock issue or a bond offering, should he try to recover in court?

Why underwriters are nervous

By Richard Greene

UNDERWRITERS BEWARE. In an increasingly litigious time, you may be the next deep pocket under siege.

For the last several years the big accounting firms have been regularly hit by lawsuits from investors desperate to recoup losses. Now folks who sell stocks and bonds may soon be in the same boat. "I think there will be more lawsuits against underwriters," says Jack Kraft, founding partner of Kraft & Hughes, a law firm that specializes in municipal bonds. "Plaintiffs are thinking more and more in those terms."

What's really scaring the underwriters these days, of course, is the potential \$2.25 billion bondholder's loss stemming from the Washington Public Power Supply System default. Merrill Lynch, Prudential-Bache, Salomon Brothers and Smith Barney, Harris Upham have all been sued, along with some lawyers, a few engineers, the rating agencies and, of course, the utilities.

Clearly, Merrill Lynch and the rest are under the gun because the bondholders feel that underwriters unloaded a bum issue. But no underwriter ever claimed to guarantee an offering. Where does the underwriter's liability begin and where does it end?

Few people would argue that an underwriter doesn't have significant liability. The judge hearing the recent takeover case involving Chris-Craft and Piper Aircraft, for example, makes that crystal clear. "No greater reliance in our self-regulatory system is placed on any single participant in the issuance of securities than upon

the underwriter," his opinion concludes. "He is most heavily relied upon to verify published materials because of his expertise in appraising the securities issue and the issuer and because of his incentive to do so."

Beyond that the water gets murky. In the law governing the sale of municipal bonds, the question is one of



who knew what when, and what did he do when he knew it. The lawyers call this "scienter." It's clear that if the underwriters in WPPSS or any other bond offering knew before they sold the bonds that the offering was going to go under and covered that fact up, they would be liable.

But life is never so simple. In the case of WPPSS, everyone seems to have assumed that if there were problems with the construction project, the utilities involved would take over the debt. A judge, however, decided differently. Did the underwriters know this was a reasonable possibility? That's for another judge to decide.

What some lawyers fear is that the WPPSS case will expand the definition of scienter from "Did the underwriter know there was a potential

problem" to "Should the underwriter have known there was a potential problem." Such an expanded definition could leave lots of underwriters on the hook.

The legal situation is somewhat different for underwriters involved in securities offerings. There the governing law is the Securities Act of 1933, which clearly takes an underwriter off the hook if he used "due diligence" in determining that all material items were clearly and accurately disclosed in a prospectus. But here, too, the underwriters cannot breathe easy.

There are lots of new high-tech issues coming to market these days, and while most of the major underwriters take careful steps to hire experts to appraise such issues, it's inevitable that sometimes they will miss a significant risk. Then the underwriters are virtually sure to be sued. Remember, in these cases, the companies generally won't have any money themselves to pay off investors with a legitimate complaint, so the search for a deep pocket will be even more thorough.

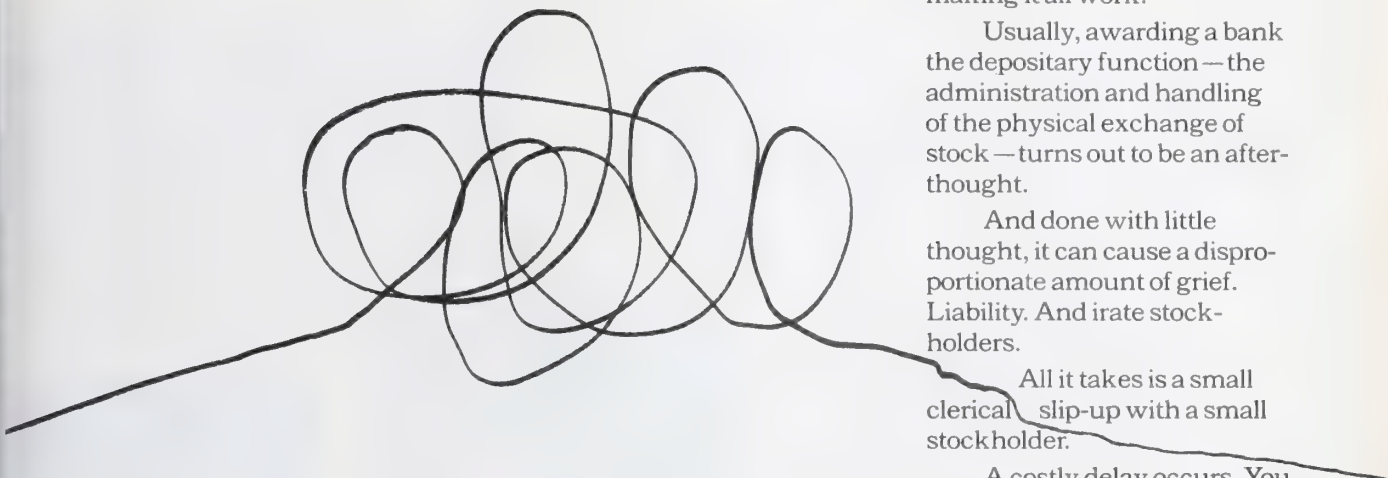
To make things worse, it doesn't even matter whether investors actually read the prospectus in the first place. Says Norman Poser, a law pro-

fessor at Brooklyn Law School and former executive vice president of the American Stock Exchange, "You don't have to show that the customer relied on the prospectus. All you need to do is show that on the registration statement there was a misstatement or a material omission."

Some attorneys fear that if there is a wave of underwriters' lawsuits when the current group of high-tech offerings begins to fall apart, it may have a chilling effect on the ability to raise capital. After all, no investment banker in his right mind will enter too many transactions that risk lawsuits.

Concludes Jack Kraft: "I don't think investors should have any expectation that underwriters and accountants will automatically make them whole if they lose money." ■

The last thing you need during a merger or tender offer is to get tangled up in your depository.



The key decisions have been made. The exciting part is over. Now somebody has to handle the important part: making it all work.

Usually, awarding a bank the depository function — the administration and handling of the physical exchange of stock — turns out to be an afterthought.

And done with little thought, it can cause a disproportionate amount of grief. Liability. And irate stockholders.

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A costly delay occurs. You spend precious time preparing lengthy explanations for the press. Answering to your board of directors. And fielding questions from regulatory bodies.

The risk is that the entire deal will be jeopardized.

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Questions you probably haven't even considered. But they cover the potential hiccups, snags and fuzzy areas that can turn a brilliant acquisition into a dismal administrative mess.

The truth is, most people in your organization don't even know what a depository does.

And if it's done well, they still won't.



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If an insurance company around in 10 years than an insurance company

Like many businesses, insurance companies are having to adapt and innovate to insure their own futures. But new ideas and new ways of doing things have never been new to The Travelers. Here are some of the things we're doing right now to give you more than just insurance.

A complex problem deserves a competent cast of problem solvers.

When the size and complexity of your account require it, The Travelers will staff it with a team of experts, rather than just one person. This might include bringing in



highly trained specialists in marketing, underwriting, financial planning, computer technology, actuarial science, and safety engineering (to uncover potential risks and

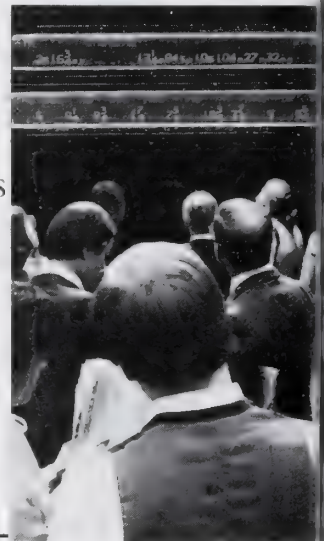
recommend preventative measures).

One of the biggest investment companies in the country is an insurance company.

The Travelers has an investment division exclusively devoted to the management of pension funds and other large company accounts. Last year, through deposits and investment growth, pension and profit sharing assets under The Travelers management increased 25% to over \$13 billion. Over the past five years, assets grew at an annual rate of 22%. A record that can be matched by few (if any) pension fund management companies.

Customized coverage.

The Travelers has many plans that could be more advantageous for you in their entirety. But your situation may not require the customary package of insurance products and related services. So The Travelers looks at your individual needs and recommends a program to fit them. That way, you only pay for what you need.



Company plans to be better be a lot more company today.

The most well-informed computer organization in the business.

The Travelers helped pioneer computation in the insurance industry a quarter century ago. Today, our computer network is hooked up with thousands of agents and field people to give them instantaneous information. And we're still making important innovations. For instance, for large commercial accounts, The Travelers has created computerized decision models to help analyze special customer needs.

But the most sophisticated computer information is only as good as the people who use it, and nobody has more knowledge-program designers and operators than The Travelers.

For us, their competence means greater efficiency and productivity. For you, it means more for your money.

Helping to keep your health care costs down.

Everybody's concerned about the meteoric rise in health

care costs. The Travelers is doing something about it. Besides working at the government level to help keep health care costs down, The Travelers is extensively involved with the private sector. We have a program to help employers educate and encourage employees to adopt healthier living patterns. Further, The Travelers often provides health care professionals to aid rehabilitation. It's all helped make The Travelers a leader in health care cost containment.

But what can we actually do for you?

For us to tell you that, you have to tell us your problems. In the commercial casualty-property area, contact Chuck Clarke at (203) 277-4451.

For pension or profit sharing information, Tom Keating, (203) 277-7777.

For group insurance, Chris Paul, (203) 277-5766.

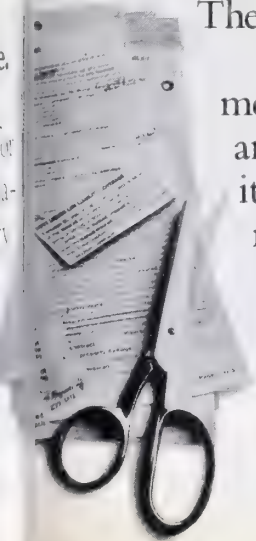
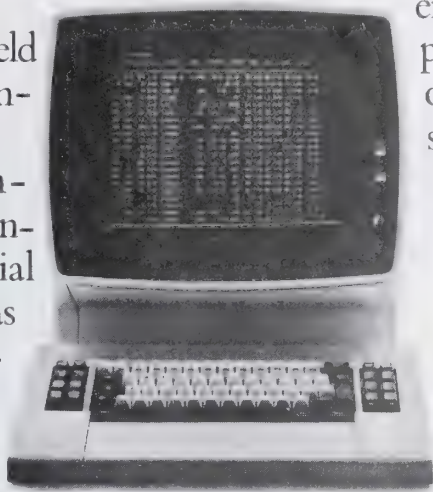
We'd like to show you what the highly qualified and dedicated people at The Travelers can do for you. Ask your agent, broker or financial consultant to call, or find out firsthand for yourself.

If all you're getting from your insurance company is insurance, get in touch with The Travelers.



TheTravelers

The Travelers Corporation and its Affiliated Companies, Hartford, CT 06115



An employee wants to go out on his own. You can fight him. Or you can back him. Norm Dion has done the latter and made a lot of money for a lot of people.

Millionaire maker

By Roger Neal

A TRUSTED, HIGHLY VALUED employee waltzes into your office and announces he's quitting to strike out on his own (and taking a few more of your best people with him). You should (check one): Cry.

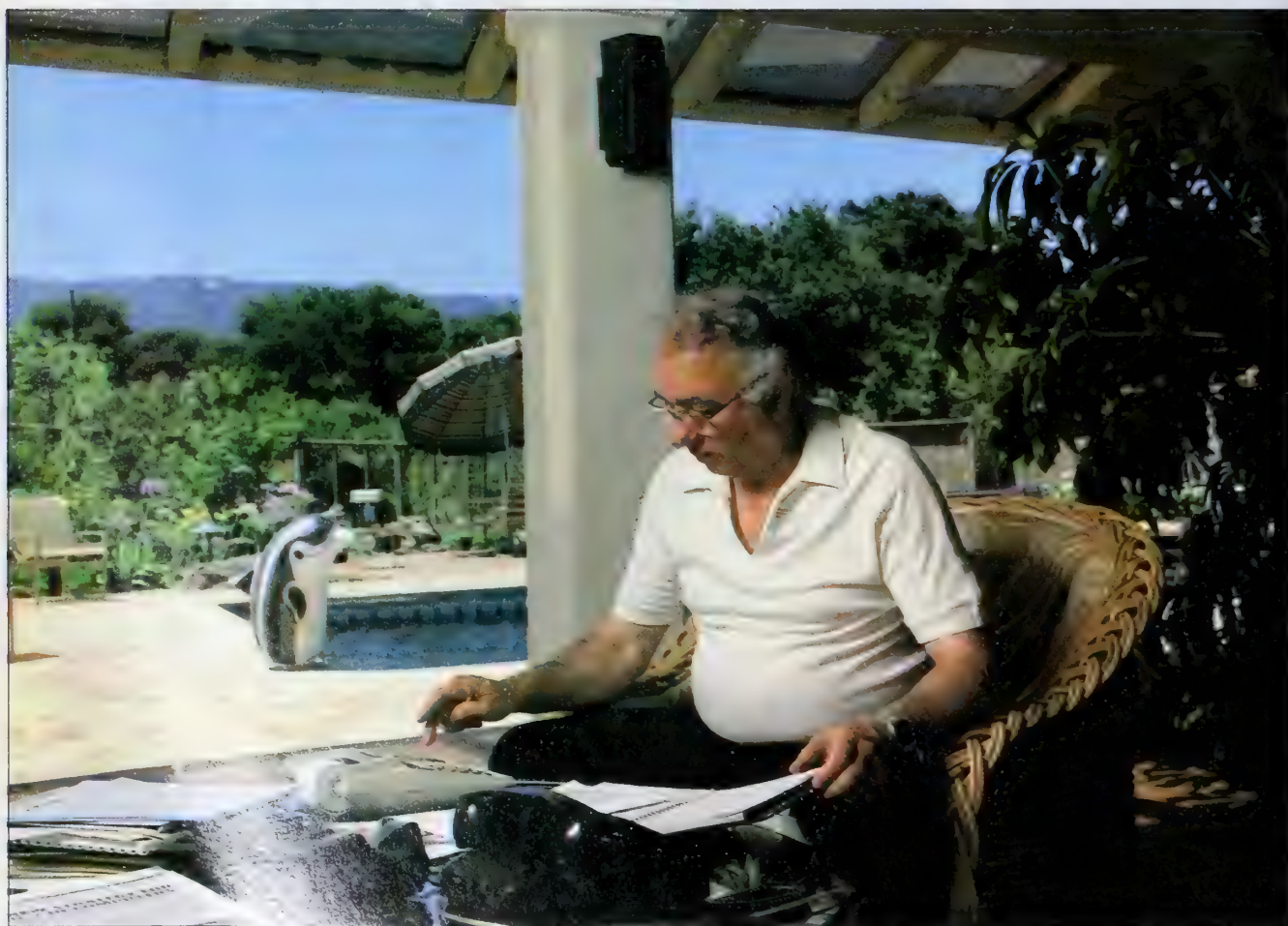
Order him off the premises.
Hog-tie him with lawsuits.
All of the above.

"None of the above," advises C. Norman Dion, 52, founder and chairman of Santa Clara, Calif.'s Dysan Corp., a fast-growing computer disk-maker. Dion suggests you congratulate your entrepreneurial employee,

buy him a drink and then offer to be his first financial backer. "I tell my people to come to me first," says Dion. "If they don't see me first, then I get mad."

In the last five years, Norm Dion has poured over \$40 million of Dysan's cash into a dozen high-technology startups, five of them brought to him by Dysan employees. Dion, who grew up on a middling chicken farm in Fall River, Mass., describes himself as "a gambler" who likes to back entrepreneurs early—before the venture capitalists—when all the entrepreneur has is an idea and a partly paid mortgage. In exchange for 40% to 50% of the startup's equity, Dion will give the entrepreneur some office furniture (which Dion buys by the boxcar) and the seed money needed to develop the idea far enough so that venture capitalists have something tangible to look at.

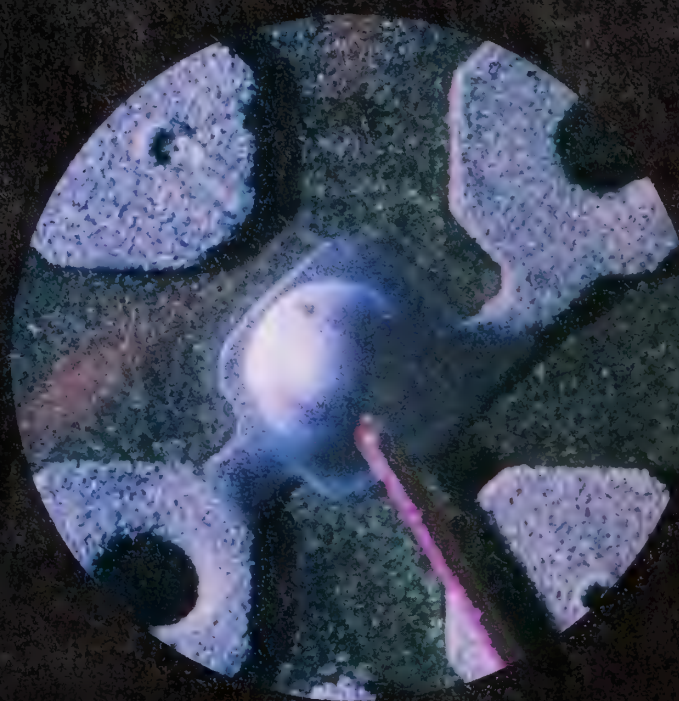
Normally just \$500,000 or so does the trick, although Dion has sunk \$30 million into two of his "affiliates," as he calls his startup ventures. Only later on are the venture capitalists invited in, to fund the product's pro-



Dysan Corp. founder Norm Dion is at home. Backing a restless executive can be better than losing him.



Splat!



Zap!

(Eighty times actual size)

You're looking at a microscopic innovation with conspicuous consequences.

The left photo shows how we used to weld the connecting wires to the chips in our "mainframe" business computers. The shot on the right shows how we do it now.

We borrowed a surgical technique used in cornea transplants—laser beam bonding—to connect thousands of nerve-sized wires to the chips in our new-generation 580 computer.

The connections are small, but their effects are anything but.

First, as the photos make clear, the bonds are cleaner and, consequently, stronger—20% stronger—which adds to the 580's reliability.

Second, because the technique is more precise, the bonds are closer together—90% closer together—which adds to the 580's capability.

In fact, laser beam bonding is a big reason why our 580 is the world's most advanced mainframe, and the industry's price:performance leader.

It's also an apt illustration of our pioneering approach to our business: Technical leadership is an imperative.

We must lead because we specialize. We make only mainframes, peripherals and related data communications equipment, and when your focus is narrow, your commitment is total.

That's why we invest more per employee in R&D than any of our competitors, and why we seek out especially imaginative people.

It's also why over 500 productivity-conscious organizations around the world have installed our equipment since we shipped our first mainframe in October, 1975.

Their support has enabled our sales to grow from zero then to \$462 million in 1982, a track record detailed in a comprehensive, plain English booklet, *The Amdahl Phenomenon*.

We'd like to send you a copy. Just write c/o Amdahl Corporation, P.O. Box 3470, MS108, Sunnyvale, CA 94086, or call (408) 746-8918.

the amdaahl phenomenon

October, 1970, a company was formed expressly to build one product: A mainframe computer that would outperform the mainframe that owned the market that time. Today, this company is an international success story, a phenomenon.

It is impossible to
think small
in a place this big.



THIS PLACE IS US WEST. Geographically, we are the largest of the seven regional holding companies created by the divestiture of AT&T. Yet geography is only one measure, and certainly not the most impressive measure, of our strength.

Take a close look at some of the projections for our region's growth.

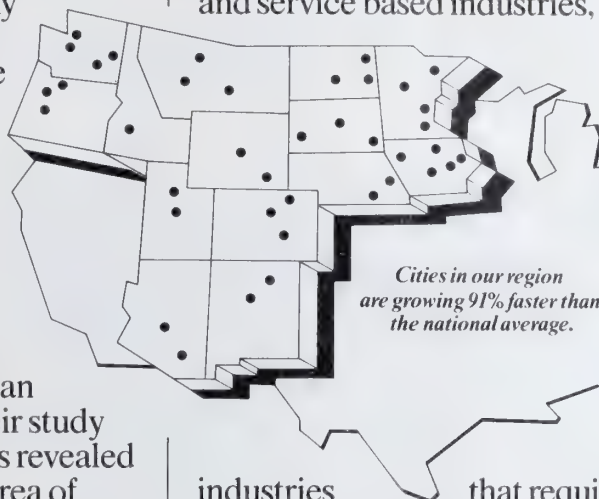
MIT/Harvard Joint Center for Urban Studies did. And their study on population trends revealed that the marketing area of US WEST is the fastest developing in this country. Faster, even, than the much touted Sunbelt. This is a dynamic environment for growth.

Personal income growth in our area is outpacing the best of the country by 26%. Our unemployment is lower, our average age is younger, and our housing starts per capita are higher. The education level of our people ranks at the top. The quality of our work force is unquestionably high. And unquestionably valuable as a resource for

growth. A recent study by *Inc. Magazine* compared wage, productivity and education levels on a state by state basis. The US WEST region is home to seven of the top ten rated

states in that study.

The traditional base of agriculture, ranching and mining in our area is yielding its lead to high technology and service based industries,



industries that require the kind of telecommunications systems that we provide.

Our region abounds with natural resources that will promote the growth of industry and enrich the lifestyles of our residents. 70% of the known gold reserves in the 48 states, 90% of the nation's copper,

98% of its uranium, 91% of its silver and 60% of its iron ore. This area provides 46% of the nation's supply of saw timber (critical to the recovering housing market) and encompasses 57% of the national forest lands. 40% of the nation's food product is rooted in our soil.

Five of the ten cities of great opportunity, cited by John Naisbitt in his book, *Megatrends*, are in US WEST territory. Ours is a diverse and dynamic region, capable of accommodating

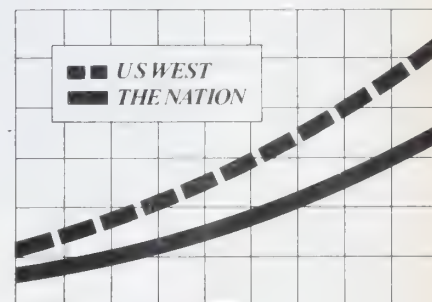
the evolving decentralization of America with land, natural resources, trained individuals and a stimulating environment.

This environment is a natural setting for telecommunications growth. The increasing base and the increasing capacity to service that base will nurture continued progress.

We serve 14 states populated by 27 million people, encompassing 43% of the continental United States. We employ more than 80,000 people and manage over \$15 billion in assets.

On our first day in business we will be among the *Fortune* top 50. Bigger in assets than Xerox, Westinghouse or Eastman Kodak.

The new and developing industries of this country are increasingly dependent on the

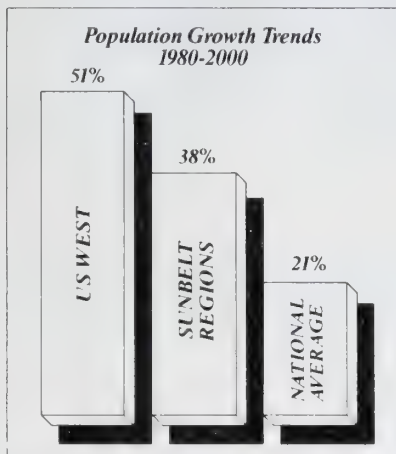


Personal income growth in our region is outpacing the rest of the country by 26%.

information their telecommunications system can bring them. And we bring them the future.

Indeed, it is impossible to think small in a place this big.

For more information about US WEST, address your request to: John Trygg, Director of Investor Relations, US WEST, Quebec One Bldg., 5700 South Quebec Street, Englewood, Colorado 80111.



Based on projections by the Joint Center for Urban Studies of MIT and Harvard University, August, 1982.

USWEST



We're out to win our spurs.

"I stop others from pirating my key people. I get R&D done outside my company. And I create a small-company atmosphere that is more conducive to productivity than at a big company." Dion pauses, grins and adds: "And I'm making a lot of friends because they're all getting rich."

duction. And it's later still before the public might be asked in, so the early backers can cash out.

The benefits to Dysan? Dion ticks them off: "I stop others from pirating my key people. I prevent my key people from spinning off and competing against me. I get R&D done outside my company. And I create a small-company atmosphere that is more conducive to productivity than at a big company." He pauses, grins and adds: "And I'm making a lot of friends because they're all getting rich."

As are Norm Dion and his shareholders. Since he quit Memorex to start Dysan in 1972, sales have grown to \$161 million, profits to \$41 million (\$2.40 a share) for the latest 12 months, including gains from his affiliates. Dion still owns 12% of Dysan's 17 million shares outstanding (they trade over-the-counter). Even after the recent technology stock bloodbath, the holding is worth \$52 million to Dion. Another 20% is held by France's Rhône-Poulenc.

Dion's most successful startup by far has been Seagate Technology, which was brought to Dion by Alan Shugart, his old boss at both IBM and Memorex. In 1979 Shugart wanted to produce a 5¼-inch Winchester computer disk drive, and wanted Dysan to make the complementary disks. (Disk drives rotate disks so information can be fed to the computer.) Shugart was knocking on venture capitalists' doors for the \$3.5 million he needed to get his disk drive into production. But the capitalists weren't venturing. "Shugart kept coming back, saying, 'They're thinking about it,'" Dion recalls. Sharing Shugart's fear that Seagate would miss a window in the market, Dion had Dysan put in some money to get him started.

Dysan put up \$500,000, for which it received 48% of Seagate's equity. In fact, the first \$100,000 of the \$500,000 was actually a loan to Shugart and a partner, collateralized by their homes. Dion: "I told them, 'The first \$100,000 you spend is your money.' I didn't want them to spend [Dysan's] money and then walk away."

Four months later venture capitalists Oak Investment Partners (FORBES, Apr. 25) paid \$1 million for 20% of

Seagate. Nine months after that, Seagate went public, selling 20% of the company for \$40 million. The market value of those shares quickly climbed to \$160 million. Early this year Dion decided to lighten up. He sold half of Dysan's Seagate shares for \$55 million. The remaining shares (13.5% of Seagate's equity) are worth over \$100 million, almost \$6 per Dysan share. Muses Dion: "That day Shugart came to see me he was flat broke. And now he's worth \$80 million. Crazy numbers, huh?"

The way Dion manages it, backing bright entrepreneurs can be tax-efficient, too. He calls such investments "research and development" and accounts for them as such—without challenge, thus far, from the IRS. After all, he points out, he only invests in ventures that are technologically related to Dysan's computer disk manufacturing businesses. Says Dion, "We're more interested in the products than the equity of these affiliates."

In effect, then, Dysan possesses wonderful tax-sheltering possibilities. Dion expenses the startup investments against ordinary income immediately, and retains the option to sell off the investments down the road, at capital-gains tax rates. Says Dion: "We like having Uncle Sam as a partner in our investments."

According to Dion, his enlightened self-interest has only one drawback—analytical stupidity on Wall Street, which currently values a share of Dysan at just 10.5 times the latest 12 months' earnings; included in that P/E is the \$2.13 a share gain on Dysan's sale of the Seagate shares. That multiple is half or less the multiple the market gives other high-tech companies. The expensed investments, he complains, "hurt our earnings per share. But when we sell off \$55 million worth of [Seagate] stock, we don't get credit for it because the analysts say that's a one-time, nonrecurring gain."

What Wall Street is really saying, of course, is that Seagate was a fluke. Certainly the odds are against another such anytime soon. Some \$30 million of the \$40 million that Dion has put into startups has gone into just two ventures: Dastek Corp. and Applied

Peripheral Systems. Both outfits are struggling to develop a thin film coating for computer disks that would replace the oxide and particulate coating techniques now used. But thin film coating is an unproven technology. Critics assert it will never be proved. Neither Dastek nor APS has yet to earn a penny to justify the \$30 million investment.

Dion concedes that Dastek and APS "were my first two affiliates; I made all my mistakes on them." But he insists that the thin film coating concept is sound. "I'll be pretty well respected when I'm proved right," he says confidently.

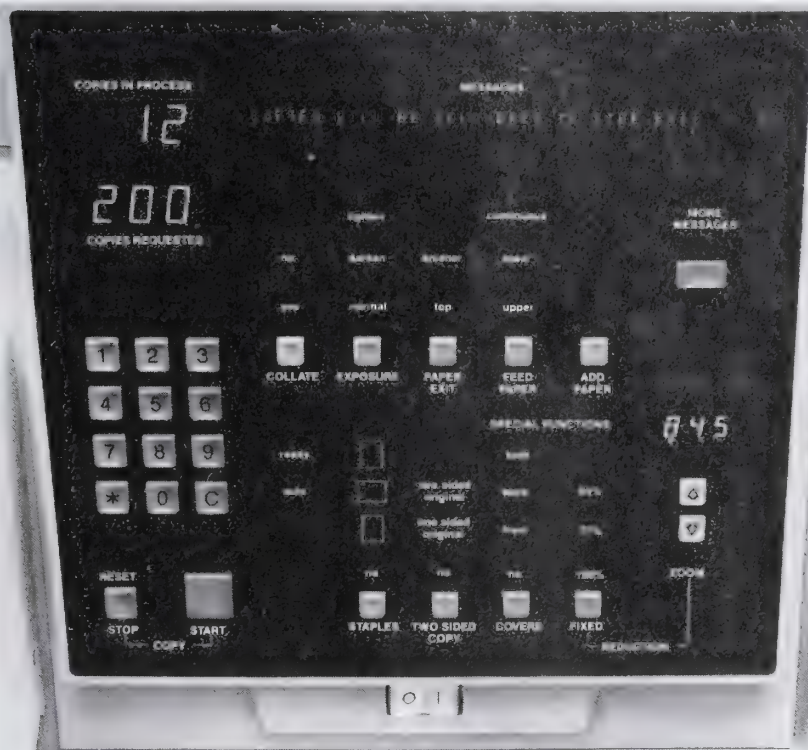
Maybe. But if he's wrong? The investments having been expensed, no nasty writeoffs will follow.

Of Dysan's nine other private startups, two have been closed down. Two are still at the seed-capital stage and one is a joint venture. Venture capitalists have already invested in the remaining four, and so have placed an outside valuation of sorts on them. The four are: Amlyn, which makes cartridge floppy disks; Tabor, maker of 3¼-inch disk drives; Brown Disc and Charlton, both of which compete directly against Dysan in 5¼-inch floppy and Winchester disks. Charlton, says Dion, is probably the next startup that will go public, though Dysan refuses to say when that might be. Venture capitalists have valued it at \$25 million; Dysan owns 50%.

Altogether these four affiliates have a venture capitalist's value of \$110 million, of which \$50 million is attributable to Dysan. That's around \$3 per Dysan share. If another buyer is willing to pay several times what the venture capitalists paid—obviously a very big if—Dion will have made his shareholders a lot more money.

In the meantime, Dion says he's receiving numerous calls from other bosses seeking guidance on how to back their restless employees' bright ideas. He is enjoying life from the million-dollar-plus Mediterranean-style home he and his wife have built in Silicon Valley's posh Saratoga area. He figures he has created over 60 millionaires in the last few years, and he likes the idea. Says Dion: "There's a lot of fun, you know, in making people rich." ■

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Rohm & Haas' CEO made some bad mistakes, but they gave him a second chance and he has put things to rights.

It's the little things that count

By Barbara Rudolph

IN HIS 13 YEARS as chief executive of Rohm & Haas, Vincent Gregory Jr. has received his share of criticism from Wall Street for a failed diversification program. But Rohm & Haas boosted earnings 74% in the first half—far better than Wall Street expected. Security analysts threw their hats into the air. "The analysts were mad at us for so long," says Gregory, a stocky, gray-haired man who was a World War II pilot. "Now they're so optimistic that I feel I have to hold them back." The stock recently hit an alltime high of \$78.

As often happens, the investment community recognized only late in the game a corporate turnaround that has been evolving for years. In the Sixties, Philadelphia-based R&H was a solid, steady producer of specialty chemicals. Its mainstays were polymers, ingredients in paint and floor polish, but the company also produced agricultural chemicals.

In the early 1970s, Gregory moved R&H deeper into the fiber business. It was a classic blunder. R&H was outflanked by Du Pont. Then the company's polyester business collapsed, thanks to a worldwide glut. A second diversification into pharmaceuticals was also doomed. By 1976 R&H was losing money. Its shares fell from \$58 in 1973 to \$14 in 1977.

Now that all seems long ago. After years of writeoffs and retrenchment, R&H earned \$77 million on sales of \$983 million for the first six months of 1983; \$2.98 a share. Return on equity is now a comfortable 12.8%.

Quite simply, Gregory has gone back to basics, the specialty chemical markets that R&H dominated for

years. But there is more than merely casting off losers and waiting for good times to return. Much of the success stems from small but significant new products and close attention to cost-cutting detail.

No high-priced consultant's studies prompted these changes. Gregory realized the need for reform, he says, when he was walking through R&H plants and felt, for the first time, that "they just didn't hum like they used to." That may sound corny, but the



Rohm & Haas' Vincent Gregory Jr. Factories "didn't hum like they used to."

numbers are compelling: Sales per employee averaged \$64,000 seven years ago. Today the average is up to \$158,000. Some of that increase came from extensive layoffs. Gregory also boosted productivity, he says, through more "bottom-up" decision-making on the factory floor.

In getting back to basics, Gregory

bravely rectified some of his own mistakes. Recently, for example, he cut back on an oil exploration venture with Shell. That could mean added profits of 60 cents a share this year.

Since R&H chemicals serve basic industries that grow no faster than GNP, dramatic gains come when market share improves. Take R&H's acrylic products, used in paint coatings. In 1960 acrylic-based coatings represented only 2% of that market. By 1970 the figure was up to 10%. Last year it hit 18%, with acrylics reducing the need for more expensive alternatives such as titanium dioxide.

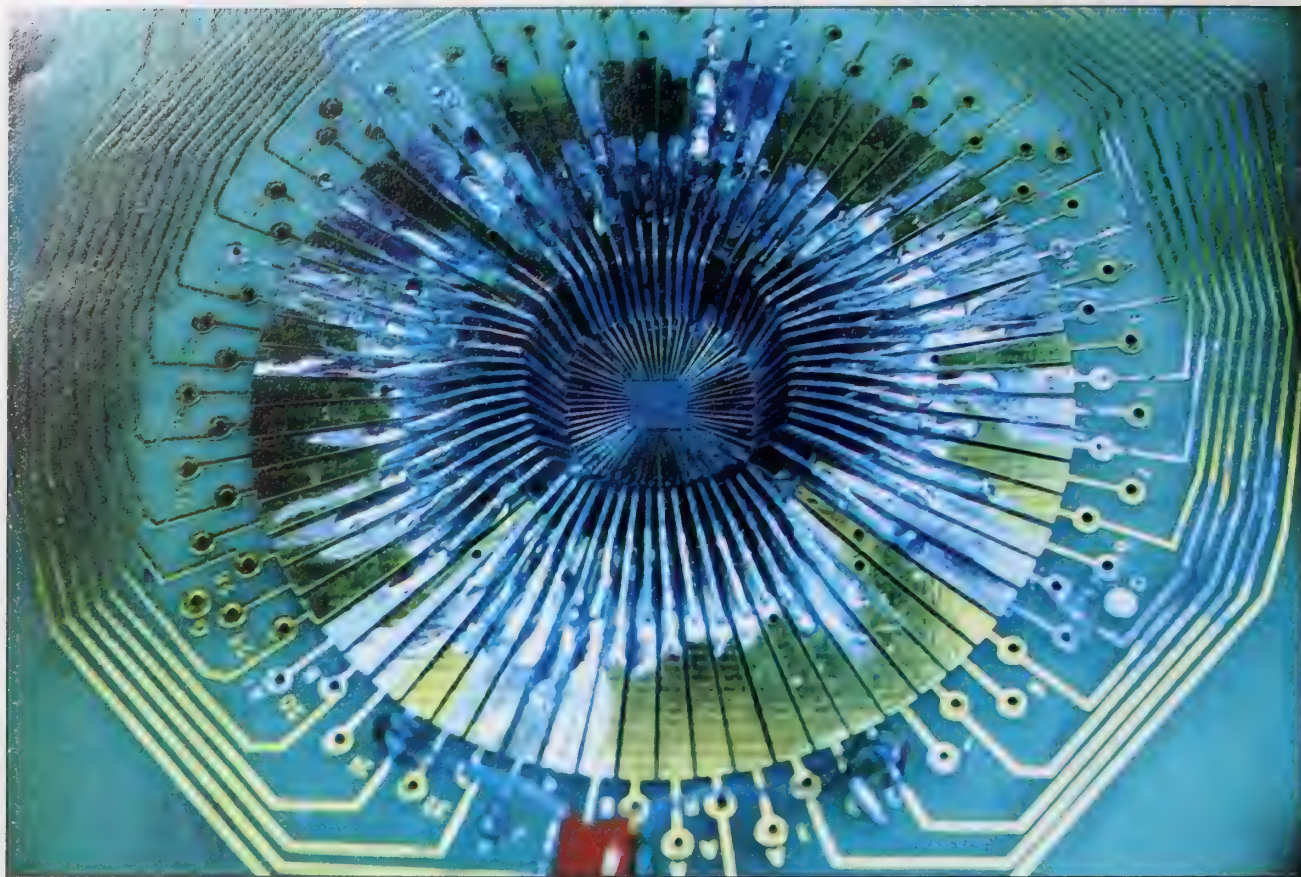
Gregory's gains haven't been achieved at the expense of the future. Gregory increased R&D spending by 37% over the past two years. During this period chemical companies such as Celanese and Monsanto were showing smaller increases. Result: R&H spends 5% of sales on R&D, a bigger share than most competitors.

Rohm & Haas currently is running \$100 million in annual free cash flow—cash that isn't needed in the business. Most of it comes from the mature polymer business. But Gregory isn't eager to spend that on splashy acquisitions. Instead, he wants small operations that fit neatly with existing products. "We'd be satisfied to let our \$225 million pile of cash sit there," he explains.

R&H found a few bargains, though. Take Gregory's 1981 purchase of Borg-Warner's PVC-modifier business. These chemicals give plastic PVC different properties, and Borg-Warner had probably lost money on them for years, according to Salomon Brothers' Leslie Ravitz. R&H got the business for a mere \$35 million, "just a song," says Ravitz. It now earns pretax margins of perhaps 15%, and analysts guess that return on capital is an impressive 25%.

R&H now has around 55% of the worldwide PVC-modifier market. Along the way it beat out Japan's Kanegafuchi, which had dominated the field. This success reflects R&H's ability to apply its traditional chemical technology in related businesses. Gregory's next target: electronic chemicals. Demand for these products, used in manufacturing semiconductors, is growing at up to 15% annually.

The founding Haas family controls 47% of R&H's stock. Back in the mid-Seventies, when the diversification gamble failed, they gave Gregory a second chance. It was a good bet: The Haases' own holdings have since increased by roughly \$230 million. ■



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A Commitment to High Technology



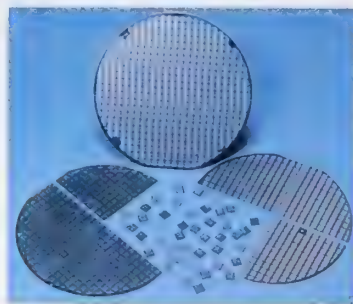
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KOREA ECONOMIC MOMENTUM:

A REPORT TO U.S. BUSINESS LEADERS

The Dynamics of Korea

By Richard L. Walker

Foreign visitors who arrive in Korea for the first time these days almost invariably comment on the dynamism of the atmosphere. Everyone seems purposefully active, construction activities abound, the whole country seems vibrantly alive. The Republic of Korea is anything but a quiet, sleepy Third World country.

In the capital city, Seoul, now the fourth most populous city in the world with more than 9 million inhabitants, something always seems to be going on. Especially active attention is being paid to upcoming important events like the Interparliamentary Union meeting this October, the World Bank and International Monetary Fund meeting in 1985 and the Asian Games in 1986. Major attention is focused, however, on the summer Olympics, which Seoul will be hosting in 1988.

Who can believe this is the same country which was so ravaged by war only 30 years ago? So much has changed. Most of the change in Korea has come in the past two decades. In 1961, for example, per capita income was only \$82. By 1982, it was nearly 1,700. In 1961, total trade between the United States and Korea was about \$150 million. Twenty-one years later, in 1982, it had grown by nearly 20 times to more than \$1 billion. This marks no small achievement for a country whose only major natural resource is the energy and talents of a highly motivated and educated populace.

Such growth has brought with it great changes in the Korean scene as well as in the relationship between the Republic of Korea and the United States. Our Korean ally now has 40 million people, of which more than 70% are urban dwellers. Reorientation and the *saemaul* ("Key Village") movement have transformed the countryside, but urban growth and modernization are what immediately catch the eye. All of this change means that, although Koreans cling to their traditional mores and remain proud of their unique national heritage, Korea now participates in the modern world as an important actor. It is no longer so small or unimportant to make a difference in world trade.



The Honorable Richard L. Walker, Ambassador of the United States to Korea.



Mr. John T. Bennett, President of the Korea Economic Institute of America.

Korean-American relations cannot be the same as they were when the Korean-United States Mutual Defense Treaty was inked on October 1, 30 years ago. Korea has moved into the top ranks of American trading partners; it is our ninth in the world, and it is the fifth largest customer for American agrarian products. The aid program, obviously one of our most successful, terminated several years ago, and Korea is now able to extend some technical and financial assistance in Third World areas. The Republic of Korea is no longer a dependent, but is increasingly a partner with the United States in issues ranging from military security to cultural activities.

Events in recent years have demonstrated Korea's capacities as an international actor. Korean workers and construction engineers have proven to be outstanding performers in the Middle East. The Korean president has visited countries around the world in a manner that is clearly not reflective of a "hermit kingdom," the name by which Korea was once known in the West. Korea ranks second among shipbuilders in the world, and Korean athletes astonished many observers by taking third place in the Asian Games in 1982. Such items indicate that Korea will be a world participant of increasing significance in the foreseeable future. The Koreans have demonstrated for the world the validity of an outward-looking development strategy, following the basic principles of exporting in a free market competitive environment.

Obviously, trade will occupy the center of attention in U.S.-Korean economic relations. While the dependence of the United States on exports is much less proportionately than that of Korea in relation to

Continued on page 4, column 1

U.S. and Korea: Competitors or Partners?

By John T. Bennett

Close allies since 1950, Korea and the U.S. have more recently developed an economic relationship that strongly reinforces their mutual security interests. Yet economic issues increasingly threaten to divide the two.

In the U.S. view, most of the problem comes from the Korean side. Korean shoes, garments, steel products and TVs flood the U.S. market, eliciting demands for protection. U.S. firms that have developed a market in Korea have been shut out when a Korean firm began making a similar product and the government protected its infant industry.

Korea points to its current account deficits to justify restricting imports and to its need to export in order to service its foreign debt.

Such views are inconsistent. Protection can't be all right for one partner and not the other.

Over the years trade has prospered because both sides have benefited.

The Economic Relationship—Trade

The most important feature of the U.S.-Korea economic exchange is trade.

Last year, Korea exported \$6.2 million to the U.S. and imported \$6.0 million from the U.S. For Korea, the U.S. was both its most important market and supplier. For the U.S., Korea was both its ninth largest market and supplier.

From the U.S., Korea buys principally grains, raw cotton and hides, nonelectrical and electrical machinery, chemicals, scrap iron, coal, pulp and paper, and instruments. Korea is the second largest market for U.S. agricultural products in Asia, and among the top five in the world. It imports machinery in order to go on growing. Its import of raw and intermediary products reflects its resource poverty.

Korea sells textiles and apparel, iron and steel, electrical products, transport equipment, footwear, machinery, tires and tubes, toys, luggage, plywood and electronic

Continued on page 4, column 3



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THE WORLD IS GOING OUR WAY.



Continued from page 2

The Dynamics of Korea

total output of goods and services, trade is becoming increasingly crucial for our economy. It affects politically sensitive areas. In America, for example, four out of five manufacturing jobs created in the past five years were in export-related industries. Korea's total exports for 1983 are expected to reach \$23.4 billion, an increase of 9.2%, comprising about one-third of the gross national product. In what has become an increasingly sensitive area, it is worth noting that our Korean allies have managed to keep their trade with the United States roughly in balance over the past decade.

Clearly, unshackled bilateral trade has already demonstrated itself as best for our two countries, and it is equally manifest that free trade can only survive if all countries play by the same rules. The United States, under President Reagan, is committed to competition on a fair and equal basis in the international marketplace.

Thus, it becomes important that both countries be alert to any practices which might encourage those very self-defeating protectionist measures that could impede our further development and mutually beneficial economic relations.

We have been reminding our Korean partners that the United States needs their help if we are to resist domestic American pressures for "reciprocity" or "local content" legislation. We have been encouraged that the government of Korea has expressed determination to bring import regulations into line with those of the developed countries by 1986. Obviously, some of Korea's top leaders understand that their country is a visible and major player in the world trade game.

Recent changes in the world economic pattern indicate that to continue its rapid growth and "economic miracle" Korea can no longer depend as much as in the past on loans and long-range credits. It will have to recruit more foreign investment, enter into more joint ventures and seek out licensing agreements. All of these will require a meticulous adherence to detail and scrupulous adherence to terms in contractual arrangements. This is beginning to be well understood in Seoul, though more attention will have to be given to problems that are beginning to arise in the fields of patents, copyrights, and intellectual property rights.

Based on an impressive performance in curbing inflation and maintaining fiscal responsibility, Korea is now one of the most attractive areas for foreign investors. Many are eager to enter joint ventures with Korean partners. Hardly a week goes by without the announcement of some new joint venture agreement, many of them with ranking United States firms. The Republic of Korea is presently at a stage where it can absorb advanced technology. Economic planners state frankly that domestic research and development efforts and overall industrial productivity can only benefit

by cooperation with overseas investors.

Today the most dynamically performing economies in the world are in East Asia, an area that has replaced Western Europe as America's most important trading partner. Korea is at the geographical hub of this area and will be especially well-positioned to take advantage of the stimulus from world economic recovery. The United States remains the ideal partner through exporting services and higher technology manufactures to complement Korea's development.

I believe I can say with certainty that, in the decades immediately ahead, Korea will remain one of the most attractive areas for close economic friendship and cooperation with the United States. The highly regarded economic management, the decision-making pragmatism, and social stability enhance Korea's credibility as an internationally responsible performer.

Underlying our economic joint destiny is the fact that as close military allies we have been able to develop especially close bonds of friendship and understanding. Our security is a mutual commitment that can only assist a shared joint economic future about which we are entitled to be optimistic.

Continued from page 2

Competitors or Partners?

goods to the U.S.

Unrecorded in Korean import data are U.S. exports of construction equipment to third countries for use by Korean contractors there. This export earned the U.S. \$172 million in 1980, \$281 million in 1981 and \$347 million in 1982.

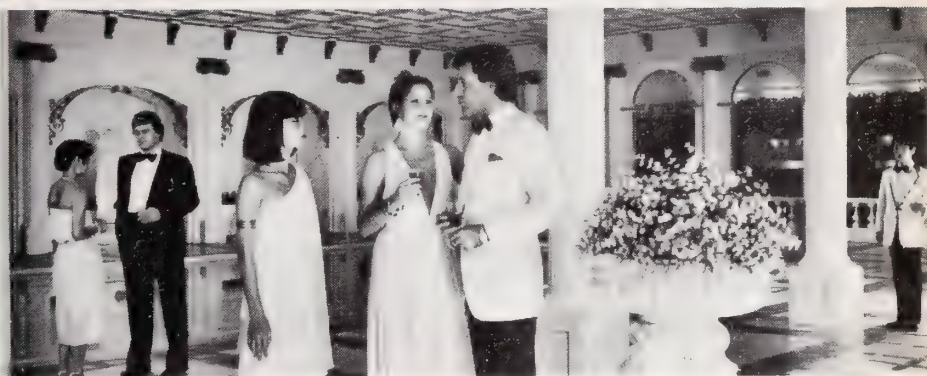
American concern about Korean exports arises because of the rapidity with which they have grown over the past twenty years: an average increase of 43 percent a year. However, they have been matched by imports from the U.S. which have grown an average of 20 percent a year, since 1962.

Investment:

The investment relationship so far has largely consisted of U.S. firms creating facilities in Korea—more than \$400 million invested by American firms over the years. Much of it in joint ventures. U.S. firms invest mainly because Korea is a low-cost manufacturer or to get access to the Korean market.

Joint management has been rare in the past, however, as complex technology

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Competitors or Partners?

becomes more important in Korea's production processes, management specialization offers advantages, with the American side focusing on the technological aspects of production and the Korean side on the human aspects.

Korea has generally been unreceptive to wholly-owned foreign investments because it sees joint ventures as maximizing the transfer of technology. In recent years, however, the government has recognized that many foreign firms will insist on 100% ownership and has allowed it in cases where the technology, such as fabrication of computer chips, was highly regarded and could not be obtained any other way. As Korea continues to adopt the economic rules followed by OECD countries, it will no doubt continue to relax regulations involving foreign investors. By 1987, it will do away with prior approvals of foreign investments except in a limited number of industries.

Korean investment in the U.S. has been meager until recent years. The desire for assured supplies of natural resources has now stimulated a change. It has developed coal mines in the U.S. and looks to do more. Trade is another important consideration leading to investment in the U.S. Korea has opened branch banks, particularly of the government-owned Korea Exchange Bank, primarily concerned with trade finance, and branch offices of its ten General Trading Companies, as well as many other trading offices.

Technology Transfer:

Technology transfer has motivated Korea to bring in much of the foreign investment there. Up to now, Korea often preferred to acquire technology by purchase. Its equity interest is not diluted, and it often can get the technique at less cost. By picking an eclectic combination of technologies, it has made its industry superior to that of other countries in some cases (e.g., steel), and avoided restrictions on its freedom to compete in world markets.

Korea is not yet developing much new technology. However, it has set up a number of industrial research institutes and should provide a growing flow of new techniques, particularly to less-developed

countries. In certain fields in which it is concentrating, such as electronics, those new techniques may also prove useful to developed countries like the U.S.

Finance:

Korea today has 44 foreign bank branches, of which 18 are from the U.S., as well as a large number of representative offices. Korea's total outstanding borrowing at the end of 1982, fourth largest in the world, stood at \$37 billion, of which about \$10 billion was short- and long-term lending by American banks.

In borrowing so heavily, Korea, which has adopted the view that its growth rate would be raised by carefully choosing productive investment projects, has been highly successful. Real growth averaged almost 10% a year from 1962-78, when the second oil shock, world recession and internal management problems slowed the pace. As domestic savings increased over the years, foreign borrowing financed a decreasing portion of total investment. Nevertheless, given Korea's highly productive new investment, that added more than 2 percentage points to the average growth rate.

Borrowing abroad pays, so long as the return earned on capital exceeds the interest cost on the borrowed funds. From 1972-76, aggregate return on capital additions averaged 37% for the entire economy. From 1977-81, the rate fell to 15%, in part because of recession, but is expected to recover to more than 20% over the 1982-86 period. Foreign borrowing continues to look attractive.

Korea needs to be able to offer financing as well as low price to remain competitive. Its Export-Import Bank was set up with this fact in mind and makes loans at 8% for periods of six months to 10 years to finance such sales.

The Balance of Benefits:

Which side benefits most from the U.S.-Korean relationship? Since both sides are better off, it should make little difference. Nevertheless, growing protectionist sentiment in the U.S. makes the argument current and heated.

At the simplest level, the debate is over jobs. Declining industries see jobs lost to imported goods. The conclusion fails to account for the jobs gained producing export goods. Moreover, the proponents of protection almost always ignore exports of services. The U.S. has increasingly become a service economy. Seventy percent of U.S. jobs are in service industries.

Some counter that services can't be exported. The Korean example refutes this point, as the following table makes clear.

On a merchandise trade basis, the exchange between the U.S. and Korea is close to even. Indeed, from 1979-81, Korea imported slightly more from the U.S. than it sold here.

It is possible to calculate what this means in jobs as well. The average U.S. worker produced goods and services worth about \$31,000 in 1982. Thus, the \$6 billion in U.S. exports to Korea was equal to about 194,000 jobs. Since imports equalled exports, however, about the same number of jobs were lost in other industries.

However, when account is taken of the trade in invisibles, the picture changes sharply. As trade was approximately even, the balance on goods and services in 1982 was \$1.2 million in favor of the U.S. In terms of average jobs, that surplus added the equivalent of almost 40,000 jobs in the U.S. that year.

Looking at the matter another way, U.S. protectionist measures against exports from Korea will reduce Korea's ability to buy here. Moreover, development of the economic relationship will be jeopardized.

The partnership has prospered in the past. The ingredients are there for it to continue in the future. What is basically required is a better appreciation of the complementarity of the two economies at the mutual benefits to be gained from cooperation.

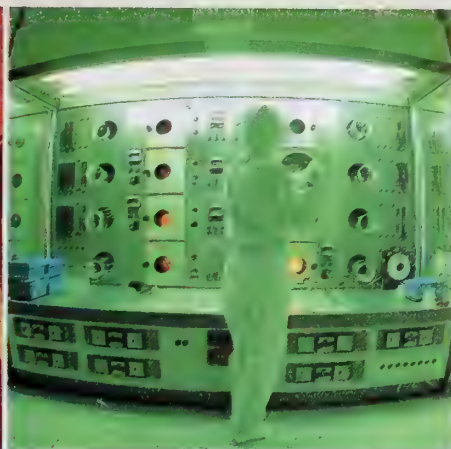
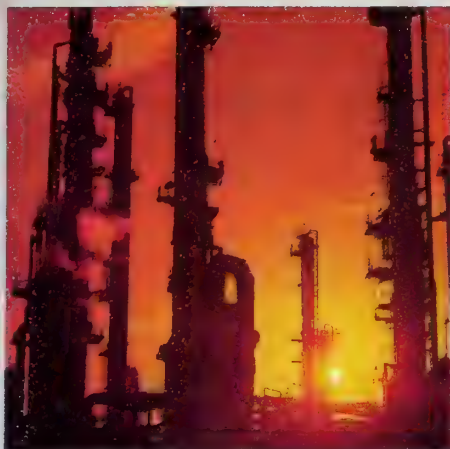
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Bilateral U.S.-Korea Current Account (in millions of dollars)

Source: Bank of Korea

	1979	1980	1981	1982
U.S. Exports to Korea	\$4,491	\$4,823	\$5,695	\$5,947
U.S. Imports from Korea	4,136	4,429	5,457	6,078
Trade Balance	355	394	238	-130
U.S. Invisible Imports from Korea	1,831	3,027	3,667	4,156
U.S. Invisible Payments to Korea	1,652	1,821	2,016	2,780
Invisible Balance	179	1,206	1,651	1,376
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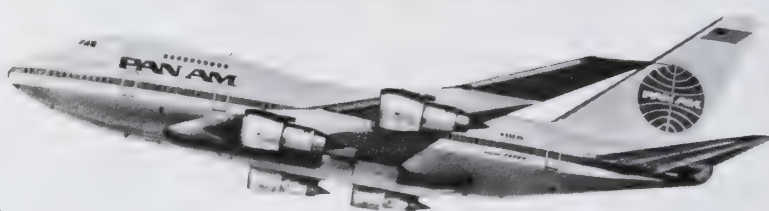
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"The game is changing," says an executive, as a new Medicare payment system threatens an economic never-never land: the pacemaker business.

Choppy waters

By Robert McGough

SUGGEST TO Cordis Corp. President Norman Weldon that there is little price competition among cardiac pacemaker firms, and he laughs. "There has not been any competition in pricing," he says. "The competition has been to raise prices. The effective technique for differentiating your product is to overprice the competition."

Weldon holds a Ph.D. in economics, so he knows the pacemaker business violates the conventional laws of economics. The three public companies that hold the bulk of the U.S. market aren't always profitable, but that's because they compete ferociously for technology. The first company to advance pacemaker design can market aggressively to gain orders and market share. As for price, charge what the market will bear and then some.

Yet nobody can ignore economics forever, as OPEC and others have learned. In the never-never land of the pacemaker business, hard reality may be near at hand. Over the next few years, changes in Medicare, which has sustained and succored the manufacturers of pacemakers, are likely to bring the business down to earth.

Because most people implanted with pacemakers are elderly, Medicare finances two-thirds of the implants. A pacemaker's entire cost, as much as \$5,300, is reimbursed to hospitals. Says John Tillotson, a physician and a consultant to Senator Dave Durenberger (R-Minn.): "The pace-

maker industry is more or less given a blank check." That's the way it has been, at least. But beginning in October, the government will impose a new system of "prospective payment" to help bring down health care costs. Instead of reimbursing hospitals for what they have spent, Medicare will limit payments to hospitals to specific sums for "diagnostic-related groups" (DRGs) of patients with similar ailments. Probably that will

gets. "Physicians will prescribe the best pacemakers," says Kenneth Abramowitz, analyst at Sanford C. Bernstein. "Would you want a cheap pacemaker in you?"

Within the industry itself the view is less sanguine. "The entire health care delivery system is entering choppy waters," says Dale Olseth, president of Medtronic, Inc., which, with pacemaker sales of \$300 million last year, is the industry leader. "The game is changing and we've got to prepare for it." Olseth has been preaching price consciousness to his management for the past year and a half. Medtronic's strong financial position makes it best able to compete in price. And if Medtronic begins to do so, its competitors will have to follow.

That will force analysts and investors to reevaluate the respective strengths and weaknesses of pacemaker companies. Right now, Medtronic, although the oldest, strongest and most experienced of the companies, is not the hottest in Wall Street's eyes. The rosier future, so far as investors are concerned, lies with Cordis. Yet Medtronic has been through the wars. Once it owned 80% of the market. In the mid-1970s Medtronic backed away from the then-experi-

mental long-lived lithium battery for pacemakers while upstarts like Intermedics, Inc. gambled on the new technology and won. Intermedics overtook Cordis as the industry's number two. Still in second place with pacemaker sales of \$141 million a year, Intermedics has special troubles. Last year the company was hit hard by accusations of fraud in its independent sales force. (Intermedics denies the charges.) Cordis and Medtronic then introduced a new generation of pacemakers that Intermedics has yet to

match. As of July, Intermedics' pacemaker sales had fallen 30% in 12 months, and Cordis' had risen 40%.

Medtronic, steadily profitable, sells at a P/E ratio of about 14. If prospective payment slows pacemaker earnings, the stock will be unlikely to go into cardiac arrest. Cordis is more of a gamble. It sells for about 34 times estimated 1983 earnings. Given Intermedics' troubles and Cordis' high-flying P/E, there's little doubt of one thing: If stormy weather buffets the industry, Medtronic offers the safest harbor. ■



Cardiac pacemakers

Would you want a cheap one?

save no money right away, but it will give hospitals a much greater incentive to operate efficiently. Hospitals that spend less than the DRG payment can, in effect, pocket the difference. Hospitals that spend more must eat the difference. "This is the biggest change in financing since Medicare began," Dr. Tillotson says.

To hear some analysts tell it, the pacemaker companies won't skip a beat. Cardiologists, they say, will continue to buy their favorite brand of pacemaker regardless of cost and regardless of the effect on hospital bud-



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Technology has solved the mystery of what happened to the Mayans. It is making archaeology less an art and more a science.

Time machines

By Robert Teitelman

IN 1871, WHEN Heinrich Schliemann began to search for the ruins of ancient Troy, his tools consisted of a well-thumbed copy of the *Iliad*, a shovel and a pick. Archaeology now supplements the shovel and the pick with particle physics and remote sensing from satellites. So what? Listen to Stuart Fleming of the University of Pennsylvania: "Now we can think of ancient times more as people, not just as a collection of artifacts." Suddenly we can understand the past not only in terms of the great sweeps of civilization but also in terms of how ordinary people lived. As a historian might put it, the emphasis shifts from Toynbee to Braudel.

Technological archaeology got its start with carbon dating, a technique



Mayan artwork from Chiapas, Mexico

developed over 30 years ago by Chicago physicist W.F. Libby. A heavy isotope with a weight of 14 is absorbed by plants during photosynthesis and by other living things, including man, through the food chain. When an or-

ganism dies, the carbon 14 slowly decays. By measuring the amount that remains, archaeologists can calculate the time that has passed. Carbon date a skeleton, and you know when its possessor lived.

More sophisticated dating techniques have since been developed. One is thermoluminescence, which can be used on pottery. Another is the still experimental amino acid dating, which is far less destructive than carbon 14 on organic substances like bone. And dating techniques are only the beginning.

There's radar, for instance. For years archaeologists have debated the economic basis of the Mayan civilization that rose in the swampy rain forest of present-day Belize and Guatemala and Mexico's Yucatan. The Mayans produced a sophisticated



Aerial view of Puller Swamp in Belize and Guatemala

A new kind of radar helped solve the riddle of the sudden collapse of the Mayans.

Technology

Edited by Stephen Kindel

civilization, centered on great city-states such as Tikal and Uxmal, which flourished from about A.D. 600 to A.D. 900. Then, for reasons as yet unknown, the Mayans suddenly disappeared, their city-states overgrown by jungle. Why did the civilization collapse?

That was the question two anthropologists, Richard E. Adams of the University of Texas at San Antonio and Patrick Culbert of the University of Arizona, were asking in 1976 when they became aware of a new tool: synthetic aperture radar. Like ordinary radar, SAR bounces microwaves off distant landscapes or objects and then measures the time the microwaves take to return. But conventional radar is limited by the size of its antenna. To map a large area, or a small one in great detail, requires an impossibly wide antenna. In SAR, a computer pieces together the many microwave bouncebacks into a larger picture. Thus SAR can penetrate trees and underbrush, swamp and even loose soil.

In 1977 NASA mapped parts of the Guatemalan lowlands with an SAR slung from a plane. The results were astounding: The SAR images showed large areas crisscrossed with drainage ditches and canals, all hidden beneath dense undergrowth. Moreover, by adjusting the wavelength of the radar, the SAR was able to map the tops of trees. The anthropologists were able to pick out areas where the trees were growing higher, an indication of ancient, raised fields. Ground surveys soon confirmed the SAR findings and revealed evidences of hitherto unknown settlements. Studying these newly uncovered sites, archaeologists became convinced that, through overuse, irrigation became counterproductive, leading to food shortages and famine. With that knowledge, much of the mystery of the Mayan collapse evaporated. A combination of drought, disease and general overextension of the agricultural system may well have sparked an economic collapse. Using more conventional aerial photography, other archaeologists were able to trace the pattern of Roman settlement in France.

Not all archaeological problems are so straightforward. For two years now an interdisciplinary team at the University of Pennsylvania has been applying a variety of new techniques to

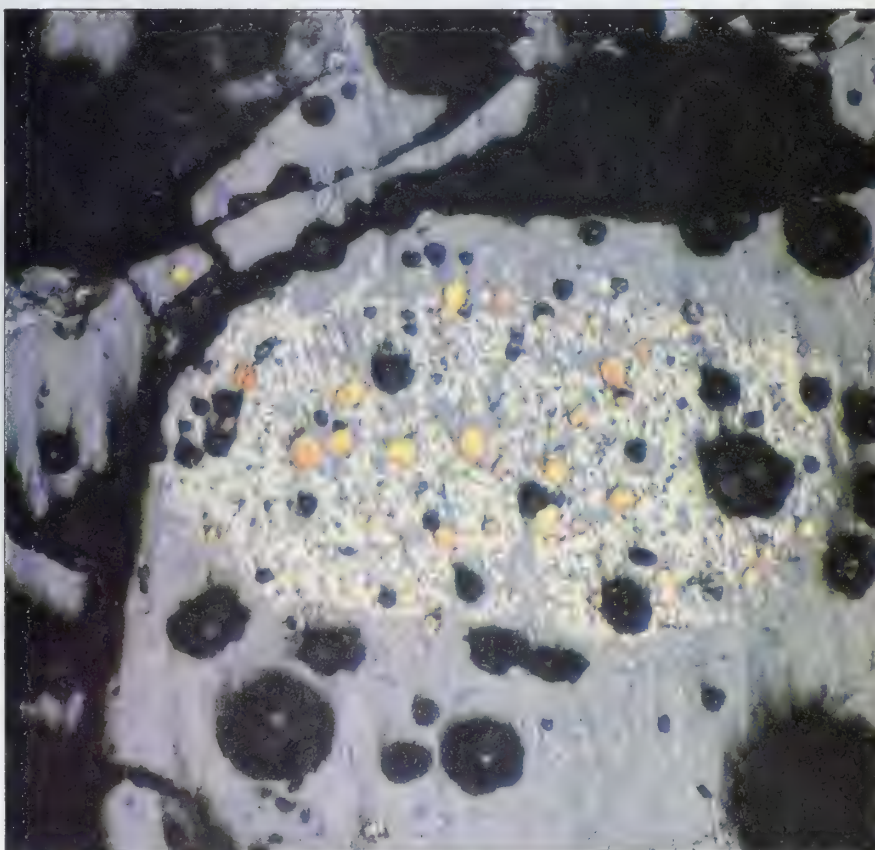


Minoan fresco: traders on the Aegean

the question of metallurgy in third-millennium Sumer. In ancient Sumer metals were, of course, utilitarian and evidence of relatively high technology—and possession denoted status. Thus how ancient societies manufactured and used metals is crucial to an understanding of how trade and power relationships developed: the stuff of history itself.

Question: Whence came the tin

needed to produce Sumerian bronze? Finding the answer required use of a wide range of technology. Tin deposits are exceedingly rare in the Near East. Because the University of Pennsylvania Museum was a cosponsor of Sir Leonard Woolley's original excavation of Ur in the 1920s, Penn had plenty of metal artifacts available. As in satellite mapping, the team began the search for similarities, or, in their



Closeup of metal crystals detailing entrapped copper prills

Electron microscopes show exact composition of centuries-old artifacts.

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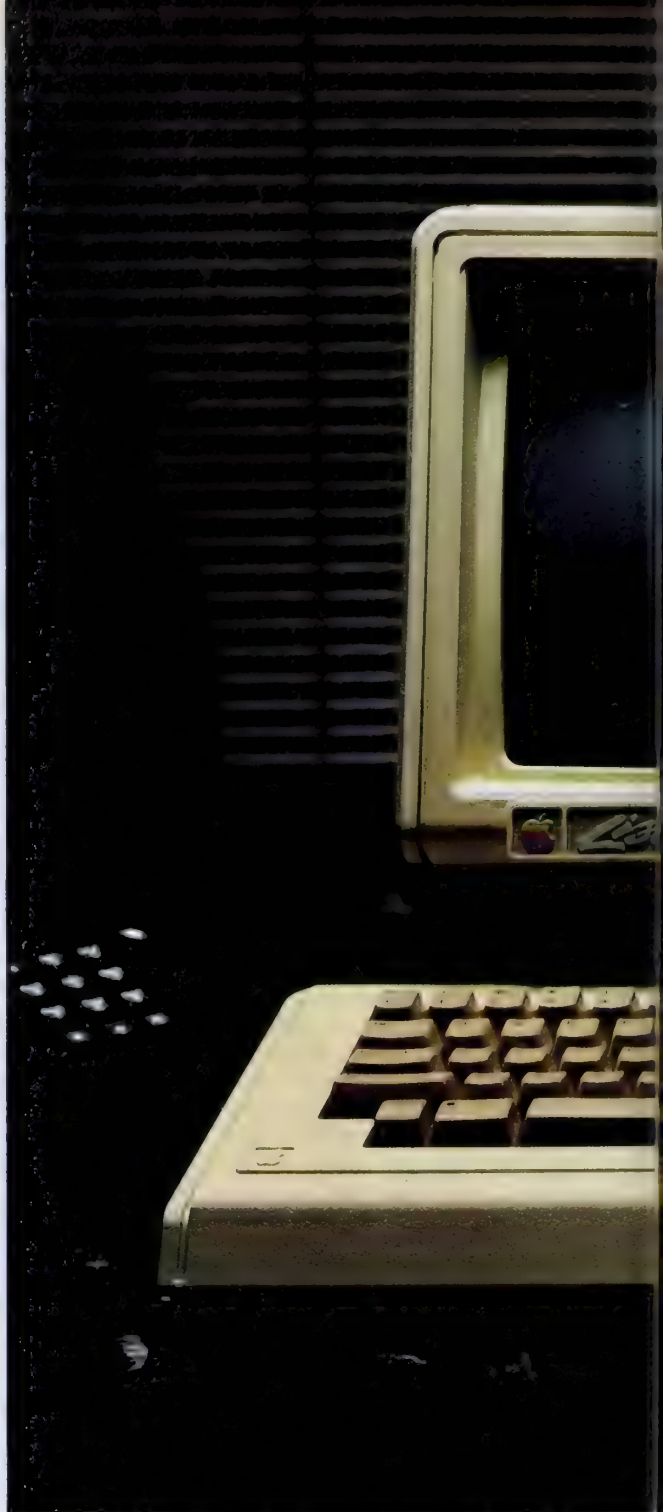
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Technology

parlance, "fingerprints."

Among artifacts found in a gravesite at Ur in ancient Sumer was a spade-shaped tool. Penn scientists first examined it under a metallurgical microscope. At a magnification of



Egyptian metal workers (2000 B.C.)

about 400, it became apparent that the metal had been reheated to allow the spade to be hammered into its finished shape. Next step: a scanning electron microscope, which allowed the archaeologists to look into the microstructure of the metal and identify impurities, as well as alloying materials like tin or arsenic. The electron

microscope, however, generally can identify only various materials, not the amount of each component. For that, a PIXE, or proton-induced X-ray emission device, is needed. PIXE is a variation on traditional X-ray diffraction analysis. Instead of bombarding the materials with electrons, PIXE uses the heavier proton, eliminating some background noise and allowing the system to measure more elements in smaller quantities. By analyzing the entire tool, PIXE revealed that the Ur spade was 88% copper, 9.3% tin and 0.7% arsenic.

Unfortunately, the trail of metallurgical evidence often ends at the furnace. But with other kinds of metallic artifacts, such as those made of silver, the path continues. Lead isotope analysis can help locate where the original constituents were mined.

Using such analysis, Oxford geochemist Noël Gale was able to test the validity of such classical sources as Herodotus and Strabo, both of whom said that silver was extracted from Laurion, on the Attic peninsula not far from Athens, and Siphnos, an island in the Aegean Sea. Gale concluded that Herodotus was correct and also that in those days Aegean trade was far more important than trade with the rest of Europe. For example, Gale showed that jewelry dug



*PIXE analyzer in action
Revealing the secrets of the tomb.*

up in Thebes, up the Nile, had Laurion "fingerprints."

Remote-sensing, high-powered computers and sophisticated analytical devices have also been put to work on one of the most fascinating of all archaeological mysteries: the Shroud of Turin. The shroud is a piece of linen cloth 14 feet long by 3½ feet

Rock of ages

The first glass was probably produced as an accident in the manufacture of bronze. Heating copper ore, Bronze Age man probably found that sand left on the copper fused and ended up as a glassy slag. Such are the uses of waste. Maybe there's a lesson there.

As it turns out, there is. Archaeologists know quite a bit about how ancient glass was made and how it deteriorates, and scientists from Battelle's Pacific Northwest Laboratories in Richland, Wash. are interested in the deterioration. In 1968 Battelle was under contract to the Department of Energy to develop means to dispose of nuclear waste safely. Suddenly glass, and all they could discover about it, became very important.

The problem of waste has been hanging over the nuclear industry since the atomic age began. Over the years, the federal government has considered a variety of disposal schemes, from burying waste in ice floes, salt domes or the seabed, to blasting it into outer space. But where it is put is only part of the problem. What matters just as much is in what form it is stored. If, for instance, it is sealed in liquid form in a metal tank, there is corrosion and leakage.

Battelle thought glass might be the answer. For one thing, glass is amorphous; that is, it lacks a crystalline structure, so radiation from the waste wouldn't break it down easily. Moreover, glass can be heated, melted and cast into almost any shape or form, so that the waste can be dissolved directly into the molten silicate, lock-

ing it in chemically.

For all that, glass posed some problems. Could it resist the effects of groundwater? Would it resist crumbling for a thousand years? The DOE turned to the archaeologists for an answer, specifically to Maureen Kaplan, a researcher at Analytic Sciences Corp. of Reading, Mass. Kaplan had a Ph.D. in archaeology and had done some consulting on the waste project. Her report to Battelle summed up the general observations made by archaeologists about glass degradation. First: Corrosion of glass tends to be more a function of chemical composition than of age. Medieval glass, for instance, loaded with potassium lime, deteriorates far faster than glass made in the New Kingdom, Egypt, a millennium earlier. Second: Environmental factors, such as changes in temperature and precipitation, make an enormous difference. Roman glass found in France, with its changing seasons, has long crumbled, while similar glass found in the hot, dry Near East remains intact.

All this has finally allowed the DOE to cobble together a waste disposal plan, which Congress passed late last year. One option that the DOE is considering is casting a waste/borosilicate mixture into 10-foot-by-1-foot metal cylinders. By 1998, an underground site should be chosen and hundreds of cylinders could begin to be lowered to a repository where conditions are serene and stable, and where, it is hoped, a thousand years will pass like a peaceful night's sleep.—R.T.



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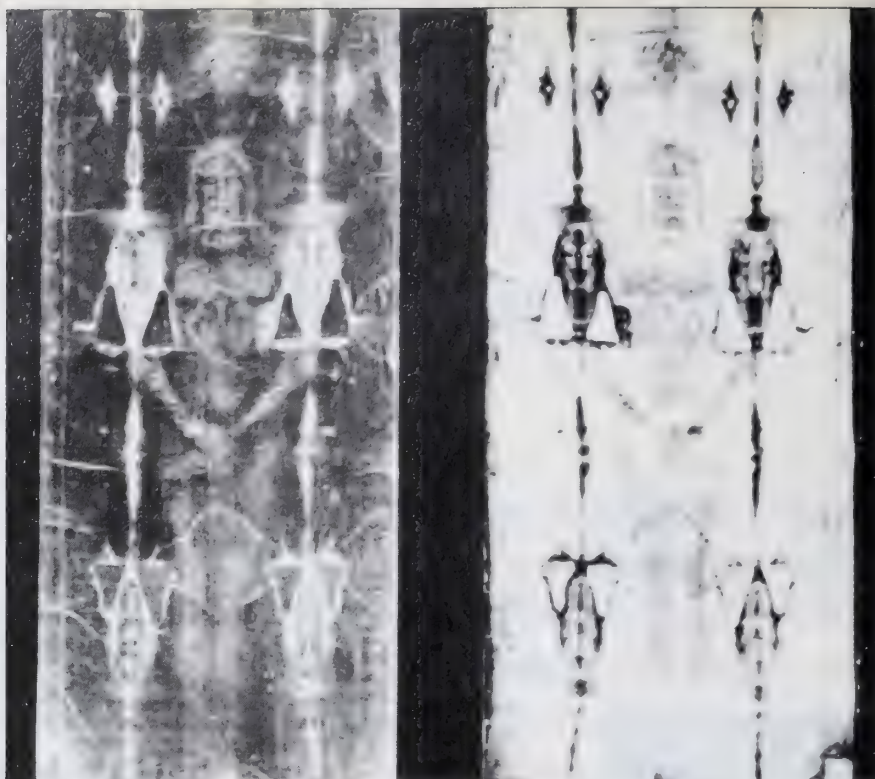
Technology

wide that many believe to be the funeral shroud of Jesus Christ. It first appeared in France in the 14th century and today rests in a locked reliquary in the Cathedral of St. John the Baptist in Turin, Italy.

When the Shroud is viewed or photographed in normal light, the figure of a man can barely be made out. But when a negative of the photograph is made, his features—and wounds—leap out. It is the picture of a man who, according to modern forensic experts, had been nailed to a cross through the soles of his feet and his wrists (not, as most paintings portray it, through the palms) and who suffered a massive wound in the flank and puncture marks around the skull.

But the most startling discovery about the Shroud came through a form of computer-aided image enhancement much like SAR or satellite mapping. Researchers at Sandia National Laboratories, a Bell Labs subsidiary that performs nuclear research for the government, had an advanced device called the VP-8 image analyzer normally used for enhancing photographic information gathered by deep space probes. The VP-8 builds a three-dimensional image out of computer-correlated variations in brightness and depth in space. In other words, brighter objects would be closer, darker ones farther away.

What does that have to do with the



Shroud of Turin, negative (left) and positive images

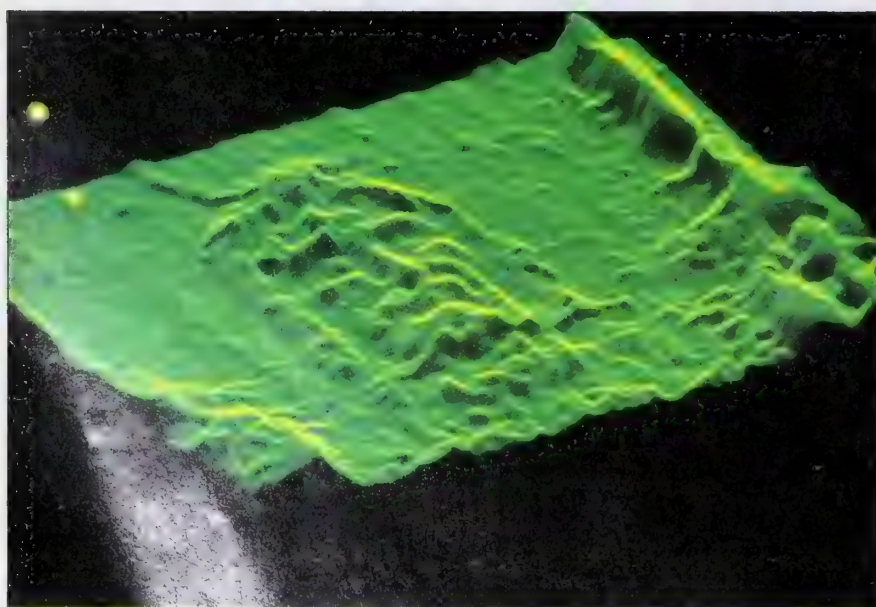
In the negative, features leap out—the image of a man nailed to a cross.

Shroud? Well, the image on the Shroud also had variations in brightness. But when two physicists, John Jackson of the Air Force and Bill Mottern of Sandia, first processed a photograph of the front and back of the Shroud through the VP-8, they got unexpected results: The variations of brightness on the Shroud can be interpreted to contain analog information, allowing the VP-8 to reconstruct a

lifelike three-dimensional form on a screen. Suddenly, from the faint image on the Shroud, appeared a muscular, full-fleshed figure.

The graphic evidence from the VP-8 inspired the Shroud of Turin Research Project. Scientists traveled to Turin in 1978 to put the shroud under every nondestructive test known to the physical sciences. After five days of photography, optical microscopy, infrared radiometry, spectroscopy and fluorescence analysis, the scientists went home. For the next three years, they performed thousands more tests, including chemical analysis on what appeared to be blood from the figure's wounds.

In 1981 they released their report. Was the image a forgery? No, they said. But the research project failed to unravel how the image was formed, or if the man was Christ. "In science, the affirmative is often very difficult to prove," says Dr. John Heller, a member of the research team who performed many of the blood chemistry tests, and the author of *The Report on the Shroud of Turin*. "Now the negative, that's easy." Does he ever expect an answer? "I'd be foolish to stick my neck out," says Heller. "But I do know the expansion of science isn't a curve anymore, it's a vertical line. I expect that, with new analytical tools, we'll discover that God's physics isn't all that different from our own." ■



Three-dimensional image of the Shroud of Turin

From a faint image, a full-fleshed figure appears. But is it Christ?



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Personal Affairs

Edited by William G. Flanagan

Hungary is an oasis for Westerners traveling in Eastern Europe. One reason is the faint aroma of capitalism.

Little Paris on the Danube

By Lawrence Minard

MOST AMERICANS HAVE a notion of life east of the Iron Curtain. Mirthless faces, omnipresent secret police, endless queues, irritating service, drab everything. The last place you would choose to do business or vacation.

Little Hungary is the exception to this stereotype. Its government has bartered unquestioned fealty to Moscow for a limited, but important, degree of freedom for its 11 million energetic citizens and businessmen. (An important part of the service sector, for example, is private.) One finds plenty of food and ample supplies of most consumer goods. For the Westerner, prices are attractive (a double room at the Budapest Hilton is \$87; dinner for two at the best restaurants is \$35), in part because of low wages (around \$125 per month on average), in part because of the ever-present need for Western currency. Small wonder almost 70,000 American travelers ventured into Hungary last year.

"Hungary has neither a Western economy nor a Western democracy, but by Eastern European standards it is by far the best place to live," says Bela Bakonyi, a Hungarian-born American who returned to Budapest in 1979 to open an office for the National City Bank of Minneapolis. "Budapest," he adds, "has become a little Paris on the Danube."

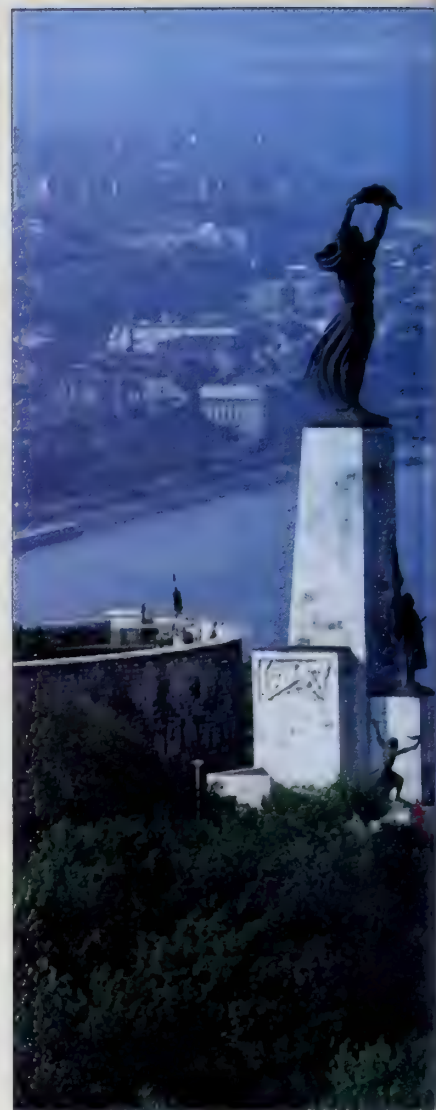
Until they were merged in 1873, Buda and Pest were independent cities on opposite banks of the Dan-

ube (Duna to Hungarians). Hilly Buda, on the western shore, was built by the Romans on the abrupt foothills of the Transdanubian mountains. Buda's twisting streets define a rich treasury of early Christian monuments, medieval palaces and Hapsburg villas. At Buda's center is a high granite plateau that supports the old walled city with its *Var*, or castle, begun in the 14th century. Destroyed during the 16th- and 17th-century occupation by the Turks and again, in 1945, by the advancing Red Army, the castle has been painstakingly rebuilt and again dominates Budapest's skyline. It now houses the Hungarian National Gallery, one of the world's finest art museums, especially strong in 19th-century Hungarian painters.

Nearby is the 15th-century Matyas Church, and next to it the Budapest Hilton, surely one of the more unusual in the chain—it incorporates the remains of a 17th-century Jesuit college and a 13th-century abbey. Ask for a room on the Danube side; the view is breathtaking.

The famous Gellert Hotel, also on the Buda side, evokes the fin-de-siècle splendor of the old Austro-Hungarian empire, when Vienna and Budapest were twin capitals. The Gellert's celebrated thermal baths (open to non-guests) are the perfect place to unwind. Sadly, however, the Gellert's once-regal interior has fallen prey to the Soviet school of interior design—chrome, cheap carpeting and modern furnishings.

Across the Danube (which is green-



Buda (left) and Pest. Soaring figure commemorates Soviet defeat of Germany

ish brown, not blue) is pancake-flat Pest, which lies on a great plain that stretches to the Carpathian Mountains and on to the Urals. Pest is where most government and business activity takes place. The new nine-story Forum Hotel is the best place to stay (double, \$79). Ask for a room on the river. The service is outstanding. "Our labor cost is only 20% of our operating costs, compared to 50% or 60% in German or Austrian hotels," explains Dr. Akos Niklai, the Forum's manager.

Across the street is the new Hyatt Atrium, whose characteristic glass elevators have created quite a stir among Hungarians. The Duna Intercontinental, downriver from the Forum, is also recommended in Pest.

If you want tranquility, stay on Margaret Island, a leafy, traffic-free enclave in the middle of the Danube boasting two fine hotels—the newer Thermal (with excellent thermal



**An eagerness to please,
and a bad meal is hard to find.**

baths) and the older Grand, where Graham Greene recently stayed.

It is hard to get a bad meal in Budapest. The better hotels have excellent restaurants (the Hilton's Kalocsa, the Forum's Silhouette, the Hyatt's Tokaji, for example). One specialty at the Tokaji: cold fogash, the pikelike fish from vast Lake Balaton that puts cold salmon to shame.

Aside from the hotels, the best and most expensive restaurant in town is the Vadrozsa, located high up in Buda's Rose Hill district. Don't miss the venison medallions or *palacsinta*, flaming dessert pancakes swimming in chocolate sauce. Figure \$80 for dinner for four, complete with Vilmos (pear brandy) cocktails and dry red Nagyburgundi wine. Reservations are a must (tel. 351-118).

Also in Buda, a few paces from the Hilton, are Alabardos and Regiorszag haz. Game, served on Herend porcelain, is the specialty of the former;

the latter has earned its reputation from its list of local wines. Note: Forget Bull's Blood wine. It is strictly for export and undiscerning tourists.

For pastry, don't miss the Geraund, in Vörösmarty Square in Pest. For lunch or dinner, try the Menes Csarda, across the street from the Forum Hotel. It offers cowboy cuisine from the Hortobagy plain: beef and pork slices flambé in *letcho* sauce—a concoction of paprika, onions, tomatoes and bacon fat.

Nearby is the agreeable, modern Vigado cafe, an adjunct of the twice-rebuilt Vigado concert hall, where Beethoven, Liszt, Bartók and Kodály all conducted.

Budapest also offers a host of restaurants where the atmosphere, rather than the cuisine, is the attraction. There's the Matyas Pince, a sprawling, old, wood-paneled cellar, and the recently reopened Gundel, next to the Fine Arts Museum in Heroes Square. The gypsy bands are energetic; be prepared to tip 40 to 100 forints (\$1 to \$2.50) when they come to your table. Beyond that, nightlife is dull. The Hilton has a casino. There are chorus lines at Maxim's and Moulin Rouge, but they are nothing special.

If you are a horse fancier, get in some riding in this land where equestrianism and horse breeding have been revered since the Magyars invaded in the 9th century. If you have only a few hours, head for the old Diplomat's Riding School at Alag, ten miles outside the city. More serious horsemen might consider a riding tour. A typical tour lasts a week and consists of daylong rides, with lunches in isolated villages and peasant homes,



**Buda castle, overlooking the Danube
Five and one-half hours to Vienna by hydrofoil.**

Swimming pool in Buda's fin-de-siècle Hotel Gellert
Also, chrome and cheap carpeting—Soviet style.



traveling from one hostel to the next. Cost for a typical week: \$450 per person, everything included. Contact Dr. Ceilla Olle, Pegazus Tours, Karolyi M. Utca, Budapest.

The Magyars were great hunters as well as horsemen, and here again Hungary is wooing the Western tourist. Another new company, Mavad, arranges shooting parties for everything from duck to big-horned sheep, roe buck, fallow and stag deer. Contact: Dr. László Gábor, Mavad, Uri Utca 39, Budapest.

To do your shopping, head for the southern end of Pest's Vaci Street, near the Forum. Herend porcelain is one bargain to be found. Or browse through Budapest's state-run antique shops (called "Vags"), which are crammed with furniture, paintings and objets d'art of every description. Caution: Antique prices are absurdly low because objects older than 100 years cannot be legally exported.

The most enchanting way to leave Budapest is via the daily hydrofoil up the Danube to Vienna. A one-way ticket for the 5½-hour, 200-mile ride is \$25 and offers unrivaled views of medieval cities, notably Esztergom, once Hungary's capital. To starboard during the last two hours of the trip is Czechoslovakia, with its sinister guard towers and olive-drab police boats—vivid reminders that a relatively free Hungary is indeed an exception in Eastern Europe.

Another would-be maker of dream cars is on the loose. His car is almost ready, and so is the public offering. Watch out!

Shades of De Lorean?

By Kevin McManus

EVERYONE LOVES the underdog who takes on the establishment—until, like John Zachary De Lorean, he fails. Stan Leitner has plans that are every bit as ambitious as De Lorean's were. Starting from scratch, he intends to make and sell 77,000 units of a brand new sporty "car" at \$5,100 a copy within 24 months. That would mean sales totaling \$393 million, of which, Leitner believes, \$71 million would be pretax profit for his St. Louis-based Tomorrow Corp. Wait a minute—at least hear the man out.

Leitner does have a hell of an idea—

a driving machine called the Litestar. Basically, it's a ground-level motorcycle with a closed cockpit and wings, actually wheeled outriggers, to stabilize the vehicle when it's moving. The car's load rests mainly on the front and back wheels, which are automobile wheels. When it turns or is parked, it leans on one or another, never both, of the outriggers.

Because the Litestar uses only two or three wheels at a time and weighs a mere 750 pounds, it is licensed for street use as a motorcycle. That classification is saving lots of laps around the regulatory track in Washington over safety.

Leitner claims the car is a snap to

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Personal Affairs

put together and that 19,000 will be on the road by next August, despite the fact that the only assembly line set up thus far is housed in two sheds that only a few months ago were a ladder factory and that the full-time work force at present numbers just 25. Another plant is being readied.

But the carcycle does work. I saw that for myself in a 25-minute test drive. True, there were a few disappointments—slow acceleration, a noisy engine and a stuffy cockpit. But the Litestar I drove was a prototype. Leitner, an indomitable optimist, blithely says that all of the aforementioned problems will be corrected in the production models.

Moreover, there is no trunk, nor even room for a spare tire. Storage space is a shelf behind the backseat with enough room for an object the size of an overnight bag.

On the positive side, the Litestar was lots of fun to tool around in. To get in, you slide back the canopy, grab on to the roll bar and ease yourself down into the cockpit. Legroom is ample for the driver, but any tall backseat passenger may feel cramped.

On the dash are all the essentials: odometer, speedometer, oil-pressure gauge, RPM indicator, heater control, headlight switch, starter button and temperature light. The gearshift is on the right and the gas and brake pedals are where they are in a regular car.

The prototype was equipped with an automatic transmission, as the production models will be. A manual transmission will be available later. A tiny lever under the left side of the dash engages and releases the emergency brake. You start the engine by turning a key and pushing the starter button.

But the most noticeable thing about driving a Litestar is the attention it gets. On the road, you draw stares and thumbs-up signs. Parked, you often draw a small crowd. Everyone—cops included—wants to know what it is, how fast it can go, how much it costs

and where it can be bought.

Stan Leitner is just the kind of guy you would like to see succeed. He talks quietly and articulately, and every so often he slips an utterly offbeat crack or sly pun into what is an otherwise serious business dialog. He is 6' 3", built like a St. Louis football Cardinal, and wears a white Van Gogh-type beard.

He sits behind a 16th-century hand-carved English library table, opposite a wall hung with a few dozen framed magazine articles about the Litestar. On the table is the head of a rattlesnake, fangs bared menacingly, mounted in a glass sphere over a small plaque: "THIS SNAKE WAS KILLED BY A STAN LEITNER BITE ON 9-28-78." A gag, of course. When Leitner was oper-



Stan Leitner and his Litestar
A cycle engine, wings and a prayer.

ations vice president of the Boston-based waste management firm SCA Services (1982 sales, \$270 million) in the early Seventies, he rode herd on the officers in charge of SCA's 102 operating units. In that position, he says flatly, he developed a reputation as a "hatchetman."

Since 1976 he has worked on his own as a management consultant. Tomorrow Corp. began with Leitner's incidental discovery of a Litestar prototype in the workshop of its designer, Jim Bede. Bede, 50, the only other major partner in Tomorrow Corp., is known mainly as a designer of small, fast and fuel-efficient jet airplanes. (One of them, the BD-5J, is featured in the movie *Octopussy*.) From Bede, Leitner bought the rights to market the Litestar for \$25,000 and an ultimate 33% stake in the company. Last year they began showing it to crowds in shopping centers and at auto shows around the country.

Last February the Litestar steadily drew crowds to its booth at the Chica-

go Auto Show. Some 15,000 people signed up for test drives, and 300 of them put down deposits for the car. Leitner has sold distributorships to 18 individuals covering 23 states (the going rate is \$8,000 per 100,000 people in a territory) and claims to have a backlog of 1,200 orders.

The first cars are now rolling off the assembly line in Carroll, Iowa, and a second line is in the works for Salem, Ill. Leitner says 1,400 cars will be shipped to distributors by the end of this year, and a total of 77,000 will be shipped by August 1985.

With its aerodynamic styling and light weight, the Litestar aims to get more than 100 miles on a gallon of leaded fuel at 55mph, and 70mpg in the city. (It has a 5-gallon gas tank.)

The vehicle's design specifications call for a 250cc motorcycle engine housed in the standard model, enabling the car to accelerate from zero to 60mph in 11.5 seconds. Two bigger engines, 450cc and 550cc, will be available as options.

But it will not all be as easy as Leitner makes it sound. Production problems have already set back his timetable several weeks. And there are questions. One big one is which motorcycle company will supply engines for the car. Right now it is up for grabs among Yamaha, Suzuki and others.

Finally, of course, there's the question of money. The bulk of his manufacturing costs will be borne by Scranton Manufacturing Co., an Iowa maker of horse trailers and farm equipment, which has been contracted to assemble the Litestar. It has already committed \$1 million to the project, and one of its suppliers has kicked in another \$350,000.

Leitner, who will buy the cars from Scranton and resell them through his franchised dealers, has borrowed \$300,000 from one bank and put up \$700,000 more along with two investors. That's not much of a grubstake in the car business.

So—surprise—he's going public this month. The initial offering will be \$5 per share. Leitner plans to sell up to 1.5 million shares himself and expects to sell most of the stock locally. Even De Lorean lacked that much confidence. He took from everyone, from Margaret Thatcher to Johnny Carson, and still went bust. ■

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Time Zone

For TIME correspondents all over the world, home is where the news is—and the news is far more than a catalogue of events.

He and his wife live in an anonymous gray apartment house in a big city, a third-floor walkup furnished in Italian modern. In good weather he jogs by the river, and walks to work. Otherwise he takes the subway.

An ordinary life, with distinctive features. The pay phones take kopeks. The subways have crystal chandeliers. And the doorman at his apartment house is a soldier with a machine gun.

He is Erik Amfitheatrof, TIME's Moscow Bureau Chief. He is one of hundreds of TIME employees whose homes are where the news is, and who comprise the

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TIME

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Faces

Behind The Figures

Edited by John R. Dorfman

His own show

As new president and CEO of staid Chicago retailer Carson Pirie Scott & Co., Peter Willmott, 46, may miss some of the glamour he had as president of fast-growing Federal Express. But Carson's gives him what he want-

profits last year on 41% of the company's sales (which totaled \$798 million). Pretax retail margins, however, were 4.8% last year, well below the 5.9% industry average. To close the gap, Willmott, a determined sort—he runs most mornings even though he says “I hate it”—intends to stock more expensive women's fashions and housewares. He plans to take big markdowns less frequently than Carson's has in the past.

Like other regional retailing executives, Willmott worries that mass merchandisers such as Sears and J.C. Penney are bidding for department stores' traditional customers. Just six weeks into his new job, Willmott re-

placed the president of Carson's retailing division with Dennis Bookshester, 44, former president of Caldor, Inc., a successful East Coast discounter.

“There's a lot of room for improvement in customer service,” Willmott adds. “I think we established some standards at Federal Express that I can apply here at Carson's.” But Willmott is no longer promising overnight delivery.—Christine Donahue

Unscheduled marathon

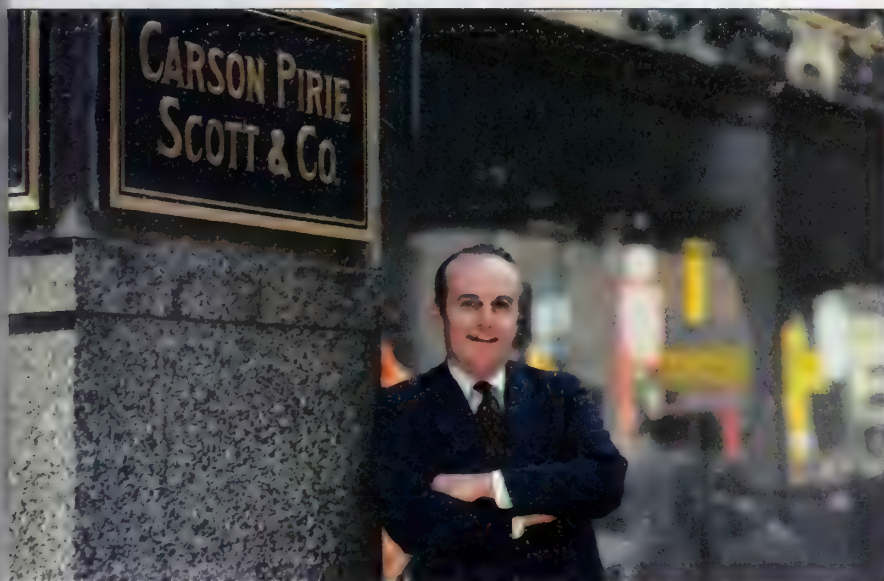
Murray Selman, 56, a Consolidated Edison vice president, got the word about the big power problem in New York City's garment district last month in a phone call at 2:30 in the morning. As head of Con Ed's Manhattan division, which provides electricity, gas and steam to some 2 million people (and rings up 40% of the utility's \$5 billion in revenues), Selman is accustomed to middle-of-the-night calls. But this one was special. The 12-block area affected held the very heart of the garment trade in New York. On top of that, it was “market week,” when buyers from out of town were to be writing orders that could make or break the year for a lot of outfits.

Selman took charge at 3:30 a.m. that morning of Aug. 10 and within an hour shut down the substation, cutting off power to the 12-block area. Recalling the intense heat and smoke at the scene, Selman says: “There was no way I was going to get in there.”

The situation was complicated by the fact that 70% of Selman's work force was out on strike. (A nine-week

Peter Willmott, president of Carson Pirie Scott & Co.

No longer promising overnight delivery.



ed: the chance to run his own show.

Frederick Smith, Federal Express' pioneering founder and CEO, is seven years Willmott's junior. The only way Willmott could get to call all the shots, he says, was to switch. In June, Willmott got the chance, for \$300,000 a year plus bonuses.

Carson's can use a new broom. It earned only 5% on stockholders' equity last year and averaged only 10.7% the past five years, less than the department store industry average (12.1%). The flagship department store has enjoyed less prestige than its archival, Chicago retailing institution Marshall Field & Co. Food service has been Carson's fastest-growing business since it acquired airline caterer Dobbs Houses, Inc. in 1980. The company also owns two coffee shop chains (Steak'n Egg Kitchen and Toddle House) and is a wholesale distributor of floor covering.

Its 24 department stores contributed 41% of Carson's \$11.4 million in



Consolidated Edison Vice President Murray Selman

This 2:30 a.m. call was special.

Faces Behind the Figures

strike was settled nine days later.) Instead of heading for his desk at 6:30 a.m. to work on long-range planning, as he usually does, Selman shuffled between manholes and executive meetings, never removing his sky-blue Con Ed hard hat. That night he and co-workers slept on cots at a midtown Con Ed office. He was to get ten hours' sleep in the next three days.

The blackout, the first extended one in Manhattan since 1977, was costly, of course. Service was restored Aug. 13, in time to salvage only a fragment of the market week volume. It was costly to Con Ed, as well—damages could reach \$40 million if the damaged substation has to be replaced. And at least one angry merchant hit Con Ed with a \$10 million suit for business lost during the blackout.

Even so, Selman, a serious jogger who is training for the New York City Marathon, saw a bright spot. The crisis, he said, showed that "our abilities far exceed the norms we establish for ourselves."—**John Heins**

Volunteer

It's puzzling that no one in Washington has thought to ask Carlos Romero-Barcelo, the governor of Puerto Rico, for his suggestions on Central America or to be on the Kissinger Commission, which is charged with recommending U.S. policy there.

Romero-Barcelo correctly flagged the region as a trouble spot two years ago in a speech before the Atlantic Institute in Paris. Now he thinks Puerto Rico could help the U.S. in several ways in Central America.

For one thing, Puerto Rico can function as an economic troubleshooter, he says. "We are already doing this on a very small scale in Jamaica, on our own initiative," says Romero. "We're sending in engineers, technicians, doctors and nurses to help train people to develop health delivery systems, build roads and water distribution systems and so forth.

"Use us," Romero suggests, "as a more professional, nonpolitical Peace Corps. We know what the problems are. We went through them 40 years ago. And we have the skills. One out of every 20 inhabitants in Puerto Rico is in an institution of higher learn-



Carlos Romero-Barcelo, governor of Puerto Rico
If only someone would ask.

ing—higher than that of most European countries."

Alternatively, Romero goes on, why not use Puerto Rico as the economic gateway to Central America? Raw materials from Central America could be upgraded by processing in Puerto Rico and aggregated into economic shiploads for reshipment to the mainland market. And U.S. goods could be dispatched that way to the region more economically through Puerto Rico, Romero says. That's an investment that doesn't get lost in offshore bureaucracies.

Romero, whose reelection bid next year could benefit by a boost from international diplomacy, says he would also be happy to serve as a

political intermediary between the U.S. and Central American nations. "I think the heads of state there might be a bit more at ease with me," he says, "not just because I speak the language, but because I know where not to tread."—**Geoffrey Smith**

Scrappy

Andrew Sabin tends to five houses, two sons, a girl friend with an active modeling career and a 42-foot boat. He's also an avid gardener, tuna fisherman, reptile fancier and 10-mile-a-day jogger. Does all this leave Sabin, 37, any time to run a business? Well, he runs two.

Sabin's father was, in trade par-



Gold refiner and trader Andrew Sabin
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Faces Behind the Figures

lance, a "junkie." He collected and processed scrap cadmium and nickel. "My father," recalls Sabin fondly, "was the world's greatest haggler. But when I came into the business I saw that there was no future. None. He never really had steady clients. He was always looking for a deal." The young Sabin started putting in 12- to 16-hour days and gradually edged Sabin Metal Corp. out of base metal scrap into precious metals scrap. He was among the first, starting in the late 1960s, to see the potential for recovering precious metals used in electronics gear. For hours on end he would comb electronics magazines, the *Thomas Register* and even the Yellow Pages, figuring out who had precious metals scrap. Then he would hit the road to convince such firms that recovering the scrap was worthwhile.

Sabin started hedging on the Comex to protect himself against drops in the value of his precious metals inventory. In the 1970s, using his knowledge of where the metals were, he moved into commodities trading. In 1980 he founded Sabin Commodities, which last year traded more gold on the Comex than any other firm and now has 19 seats there. Sabin Commodities has about \$5 million in annual revenues, compared with \$90 million or so for Sabin Metal, but the high margins in commodities trading (often 15% to 20% net) mean that the new business brings in more than the original business in some years.

Sabin attributes some of his success to employing "street kids" who he thinks are more loyal and hardworking than college grads. Among his traders are a former construction worker, a former fruit stand operator and a former boat captain.—J.R.D.

Peep, peep

Bon Ami Co. was 1 of only 16 Big Board companies that paid uninterrupted dividends all through the Depression. In those days Bon Ami cleanser, known by its trademark chick and slogan "Hasn't scratched yet," dominated the market.

Bon Ami fell on hard times in the 1950s when Alexander Guterman (convicted of fraud in 1958) milked the company. It passed through a string of



Gordon Beaham III of Faultless Starch/Bon Ami Co.
Trying to push water uphill.

owners, while its market share fell to around 1%. By the time Gordon Beaham III's family corporation bought it in 1971 for about \$1 million, there wasn't much left to Bon Ami except fuzzy yellow goodwill.

Meantime, Colgate introduced Ajax in 1947, and Procter & Gamble launched Comet in 1956. Today Comet has about 60% of the powdered cleanser market, and Ajax has about 30%. Holding on to Bon Ami's current 5% share, says Beaham, is "like pushing water uphill."

How can Faultless Starch/Bon Ami Co., with annual sales around \$15 million, compete with advertising giants like P&G or Colgate? Beaham can trot out endorsements from Corning Glass and others who like Bon Ami's feldspar-based nonscratch formula. He also tries to use magazine ads like rifle bullets while his opponents use the television blunderbuss.

Even so, Beaham is thrilled when a supermarket gives Bon Ami six facings on a shelf. Typically, Comet gets up to 20, Ajax 10 and Bon Ami 4. So Beaham, a 51-year-old former Navy underwater demolition man who still enjoys scuba diving, has his eye cocked for diversifications. That's nothing new: Bon Ami was the escape valve that got Faultless away from exclusive reliance on starch shortly before that market went limp. Now, Beaham has high hopes for Noverox, a Swiss-made rust remover for which he has exclusive U.S. distribution rights. He's also marketing the German-made "garden weasel," a multi-pronged, adjustable garden tool.

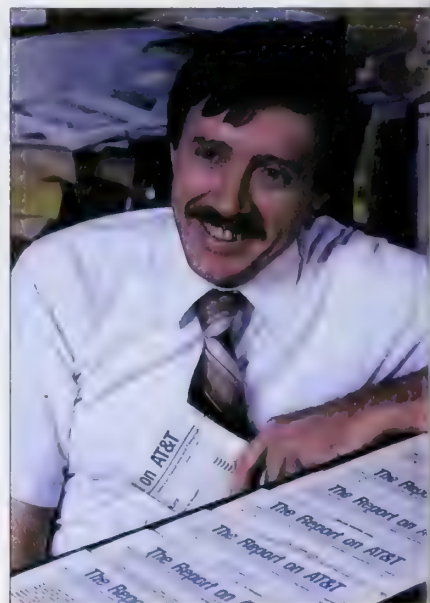
Are four balls in the air too many? No, says Beaham: "In the 1960s we

had only one ball. When it started down, it sure didn't feel very good."

No offense to chicks, but sometimes it's the little guys who have to scratch hardest.—J.R.D.

The \$397 RATT

After five years of it, frankly, Doug O'Boyle was getting a bit tired of writing about gasoline and heating oil marketing. So, last fall, he asked his employer—Capitol Publications, Inc., the nation's most prolific newsletter outfit (39 newsletters)—for a change of pace. Thus was born *The Report on AT&T*, or RATT as it is called around the office—a pricey (\$397 a year)



Newsletter editor Doug O'Boyle
It beats gasoline pricing.



Bullet Train, Tokyo

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Faces Behind the Figures

weekly letter on AT&T's breakup and future. With the help of three full-time staffers, O'Boyle, a former Capitol Hill and UPI reporter, churns out 12 single-spaced pages a week on subjects from rate hikes in Nevada to pricing brawls with MCI. "Hell," says O'Boyle, "AT&T has a million employees, and half of them don't know what's going on."

It all goes to prove the first rule of newsletter publishing: In confusion there is opportunity. Something like 20 new telecommunications newsletters have been born in the past three years, from the general (*Communications Daily*) to the ultraspecific (*Telephone Bypass News*). E.F. Hutton has also launched an investment letter specifically on AT&T, called *The Hutton Connection*. Despite the competition, RATT has compiled a paid subscribership of 600-plus and, claims O'Boyle, is making money—rare for a first-year newsletter, even a fairly expensive one.

Will they still love it tomorrow? O'Boyle, who has no equity in the newsletter, only his salary, says he is unfazed by the possibility that the AT&T breakup might one day be as tiresome a subject as gasoline pricing was last fall. "Long after this divestiture business is over, there will still be an AT&T, and it will still be evolving," he says confidently. "We'll be around, too."—Anne Bagamery

Dollars for scholars

"We do what we do as well as any profitmaking company could," says Eileen Mackesy, managing editor of the *MLA International Bibliography*, that invaluable resource for scholars published by the Modern Language Association.

Only the MLA, the 100-year-old, 26,000-member nonprofit organization, could love a publishing project like the *Bibliography*. It's an index to subjects treated in the huge number of scholarly publications that come out every year around the world dealing with literature, language or folklore in every significant modern language. The 1981 edition had 38,000 citations on subjects ranging from antelope headdress to Zapotecan languages.

Back in 1976 the MLA was making



Eileen Mackesy of the Modern Language Association
A publishing project only the MLA could love.

do on an annual budget of \$1.4 million and felt pinched. Some 2,200 copies of the 1976 *Bibliography* were sold at a mere \$40 a throw. Today it still is not exactly a runaway best-seller—2,000 copies of the 1981 edition have been sold since publication this spring—but the price of the latest five-volume edition has been hiked to \$500. Instead of being a cash drain, it now brings in roughly \$800,000—a big help in enabling the MLA (current annual budget \$3.2 million) to support scholarly activities.

Scholars can now gain access to the *Bibliography* by computer, which means that, in one probe, a researcher can track down virtually every significant article published from 1970 to 1980 on, say, feminist poetry.

Revenue growth from computer-search royalties has averaged 40% the past couple of years and isn't likely to slow much. By 1995 it looks like the MLA's computer revenues will overtake book revenues.—Anne McGrath

"If it works . . ."

The Federal Communications Commission's recent leap onto the deregulation bandwagon is getting low ratings from Representative Tim Wirth, chairman of the House subcommittee on telecommunications consumer protection and finance. He takes an especially dim view of two recent FCC proposals—that broadcasters be freed of the guideline limiting commercials to 16 minutes per hour and that TV stations no longer be required to devote time to public service broadcasting (at least 5% news and public affairs, for example).

"In the absence of sufficient competition," Wirth says, broadcasters

might "saturate the public airwaves" with commercials. Removing the requirement for public service broadcasting, he says, would be an even worse idea. Inadequate public service programming is the bone usually picked by license challengers, he argues. Remove it, and broadcasters would become so firmly entrenched that no one could budge them from their comfortable places in the broadcast spectrum.



Congressman Tim Wirth
Sixteen minutes and that's it.

Wirth, a 43-year-old Colorado Democrat, and his committee will obviously have a lot to do with the outcome of this issue; Congress has said that the FCC may not deregulate television without congressional approval. Wirth himself much prefers the status quo. "There's an old expression," he says. "If it works, don't fix it."—Reed Massengill



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The John Hancock companies can provide the financial services and products you need to get your personal computer working in the right direction. These include financial and tax planning, mutual funds, options, stocks, bonds, IRA and other retirement programs. We can even help you with auto and home insurance.



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The Forbes/Wilshire 5000 Review

Market Value of Wilshire 5000:
\$1753.6 billion as of 8/19/83

Wilshire 5000 equity index
The total price of all stocks for which daily quotations are available, weighted by market value.

Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.

12-month closeup

Wilshire 5000
P/E: 14.1

Dow Jones
P/E: 12.2

Percent change
in last two weeks

+1.2

+0.9



S O N D J F M A M J J A

Getting wisdom. During the past two weeks investors worried about whether the long-anticipated correction was finished or the late-summer weakness in the market was the beginning of a long downtrend. They also became more cautious. As the yardstick measurements below indicate, shares of large companies, as well as low-volatility, high-yield and low-growth stocks, fared better than their counterparts. Despite setbacks over the four-week period, all of these conservative groups were stronger than the overall market. The Wilshire index indicates that it declined 3.5%.

During the last two weeks most averages came out

slightly ahead, but the gains came at the expense of many of the secondary issues. On the winning side, the NYSE led with a 1.4% advance, while the Wilshire and the Forbes 500 were both up 1.2%. The closely watched 30 Dow industrial stocks lagged with a 0.9% advance. But Amex and NASDAQ issues declined 0.2% and 0.4%, respectively. Particularly hard hit were the highflyers. Shares that started the year with multiples of 25 or greater lost more than 8% in the last four weeks. This contrasts with a slight improvement in the overall market multiple. After declining since mid-July, the P/E on the Wilshire index moved back up a notch, from 14 to 14.1.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ¹	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-3.5	-3.0	-3.0	-2.9	-6.7	-6.7
in last 52 weeks	51.2	43.2	37.4	46.8	80.8	79.1

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	-3.4	-6.0	-6.0	-1.4	-8.1	-4.4	-0.9	-5.1	-5.7	-1.5	-4.8	-5.5
in last 52 weeks	53.3	157.2	149.8	55.8	109.1	145.8	48.7	146.0	170.6	56.6	69.8	147.7

¹Based on sales.

²A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

³A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

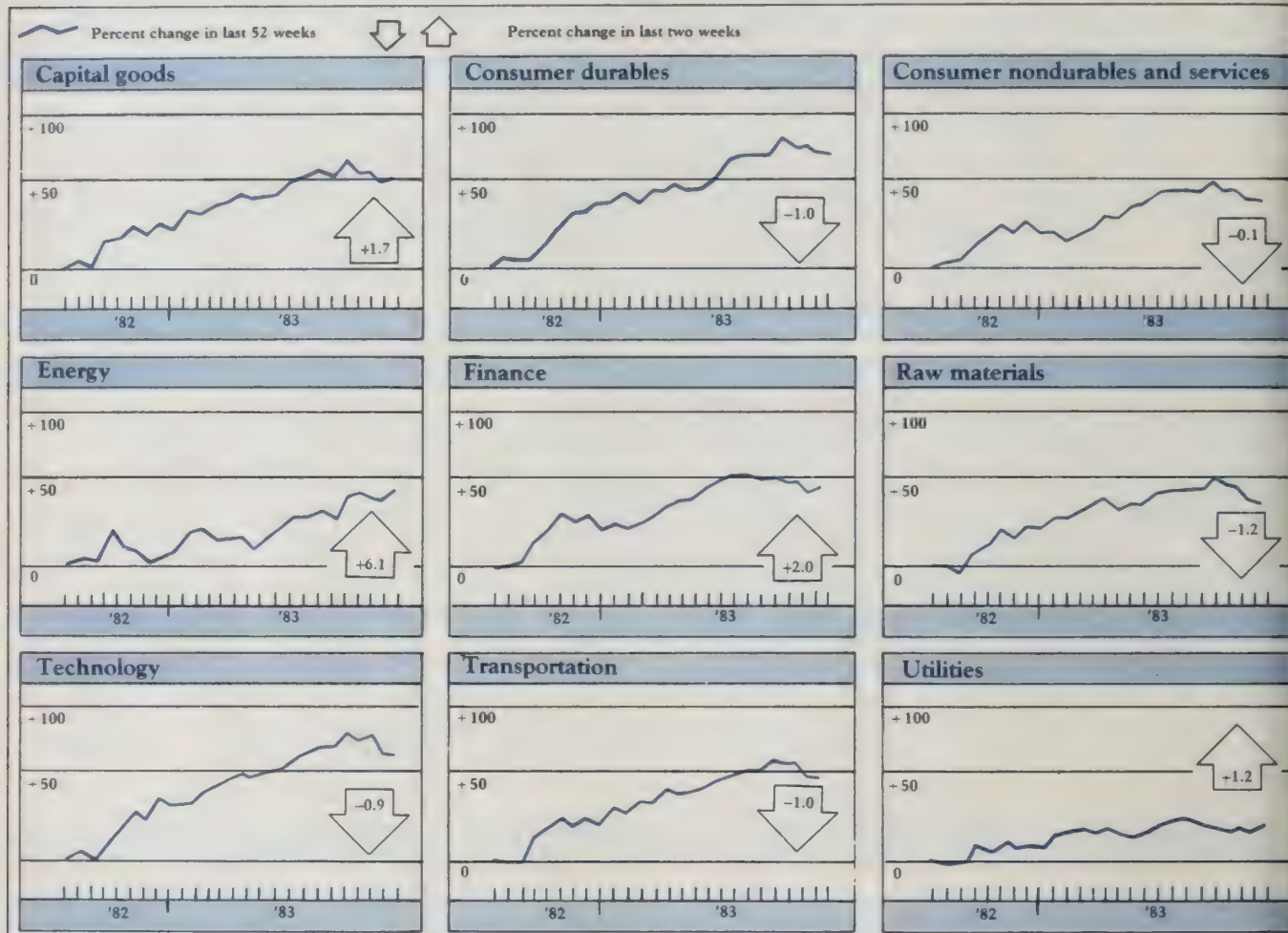
Note: All data for periods ending 8/19/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Down in an up market. Although the Wilshire index shows modest gains for the two-week period, five of the nine sectors lost ground. The raw materials group dug deepest with a 1.2% decline while both transportation and consumer durable stocks fell 1%. Of the five declining groups, consumer nondurables dropped only 0.1%,

Energy shares, which have been strong throughout the

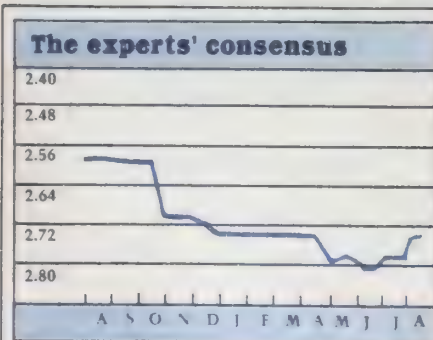
summer, again bucked the negative market trend with a 6.1% advance. On a 52-week basis energy moved ahead of consumer nondurables, raw materials and utilities. Another sign of the renewed strength of the oils comes from the four-week sector performance, where energy stocks are up 3.6%, vs. declines in all other sectors. During this period, in fact, four groups lost 7% or more.



What The Analysts Think

Analysts need vacations, too. The seers of Wall Street didn't have much to say during the latest reporting period. Although none of the rankings changed, the buy/sell

opinion on utilities, finance and energy strengthened while the analysts became slightly more pessimistic about raw materials, capital goods and consumer durables.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	2.47	1	1
2	Transportation	2.66	2	2
3	Raw materials	2.69	3	3
4	Energy	2.73	4	4
5	Finance	2.77	6	6
6	Capital goods	2.79	5	5
7	Technology	2.80	7	8
8	Consumer nondurables	2.81	8	7
9	Consumer durables	2.98	9	9

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite

rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 8/19/83. Prepared by Wilshire Associates, Santa Monica, Calif

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The MacNeil/Lehrer NEWSHOUR

Weeknights on PBS, beginning Monday, September 5th

Hunting the hunter

Now that Esmark has completed its \$1 billion takeover of Norton Simon, could it be that the new \$6.2 billion (sales) conglomerate will itself become an acquisition target? To help pay for the big acquisition, Esmark is floating an approximately \$250 million stock offering that will add 3.5 million shares to its 14.9 million of common outstanding. This could make it costlier for someone to take over Esmark: At a recent price of around 69 on the Big Board, the company's market capitalization should increase to almost \$1.3 billion. "I'm sure we're still a [takeover] candidate, though," admits an Esmark executive. The reasons are obvious: Now that Norton Simon is in the fold, Wall Street estimates on 1984 earnings range all the way from \$8.50 to \$10 a share. At a roughly 50% premium over market—say \$105 a share—an Esmark takeover would cost someone about \$1.9 billion. However, as a skilled acquirer knows, there are assets that could be sold quickly to re-

duce the cost, and the interest cost on borrowing the rest would be well below the cash flow available to service it. That's the way it is in the corporate jungle these days. A hunter one day and hunted the next.—Thomas Jaffe

Not yet, not yet

On Friday, Aug. 19, after some big-volume trading days, Wang Laboratories sent a telex to Tymshare CEO Thomas O'Rourke announcing it would spend over \$15 million on Tymshare shares. That's about 6% of the company at recent prices. Wang also said it would probably remain in the market to build its holding to as much as 25%. Wang has not yet filed its 13-D, but it probably paid just under \$20 per share, vs. Tymshare's high of \$57 two years ago.

Thinking of bailing out on a strong uptick? Don't do it, say Jim McCamant and Michael Murphy, publishers of San Francisco's relatively new, but already esteemed, *California Technology Stock Letter*. Tymshare's juiciest asset, says McCamant, is its Tymnet

division, which operates a value-added telephone line network over which electronic data is transmitted. McCamant says giant GTE paid around \$200 million some years back to buy Tymnet's competitor Telenet. McCamant argues that Tymnet alone could be worth perhaps \$500 million (around \$42 per Tymshare share) to a buyer like IBM, MCI, GE, Western Union or the new telephone companies—"or any company that wants to be a serious player in office data processing."

Another Tymshare division operates Unitax and Dynatax, which process tax filings for accounting firms. A similar, East Coast-based company recently went public for around \$200 million, and is now worth \$350 million. A third division has won potentially lucrative microwave television transmission licenses from the FCC in 50 major U.S. cities. Even Tymshare's

original remote computing business, troubled of late, should return to profit as the economy picks up.

All told, McCamant thinks Tymshare could easily fetch up to \$45 to \$50 a share. He gets support from Houston's venerable money manager Faye Sarofim, who owns 6.47% of Tymshare. Is Sarofim selling his stock at current prices? "I don't think so," he replies.—Lawrence Minard

Naughty, naughty

Just about everybody knows that a firm that receives shares in a startup company through a private placement gets those shares dirt cheap. A penny or two a share. But suppose that company then goes public a year later. There's often a bad conflict of interest because the selling firm is telling its customers to buy the very shares the firm is selling. The National Association of Security Dealers has told its members to cut it out. Henceforth no member firm or any of its principals that own shares through a private placement and want to participate in the public offering can sell any of its own stock until at least a year after the offering has been completed. The NASD calls it a 12-month lockup period. By then the price of the stock should have moved closer to where it reflects a company's real fundamentals. It's about time.—T.J.

Is there a labor lawyer in the house?

The share-exchange merger between Consolidated Freightways and Air Express International looked like a sure thing. Last spring the arbitrageurs were betting heavily that it would go through. They were shorting CF and going long Air Express. But even the legendary arbs don't always win. Instead of the 50-cent-per-share profit they expected to make by AEI's shares rising to 15¾ at merger time, they're way out of pocket with the merger having fallen through and the stock now at 6¾. What went wrong? Seems Air Express had a collective bargaining agreement with Teamsters Local 851, a New York chapter whose members work at Air Express' J.F.K. International Airport facility. Written into the contract is a clause that should AEI be acquired, the new parent company will have to abide by the same agreement. Merger talks had begun in late December 1982 and come May—with the deal set to close the end of



June—the union asked for written assurances from AEI about its contract's future. There followed a lot of legal maneuvering that so delayed things that the merger started coming apart. CF stock started rising; AEI dropped. The arbs even started calling the union lawyer. Finally, on Aug. 2, the deal was called off. A number of reasons were given, including the fact that AEI's losses in 1983 exceeded the amount allowed for under terms of the merger contract. A lot of arbs are nursing bad losses.—T.J.

Rx for I.M.S.

New York's tiny \$201 million (sales) I.M.S. International is often called the A.C. Nielsen of the drug industry. It keeps track of which pharmaceuticals are selling in drugstores and hospitals, as well as what doctors are prescribing these days. A nice business, right in the heart of the health care industry and with no significant competition. But after doubling in 1982, the 9.5 million shares recently sold in the over-the-counter market at 25—just a shade over their price in January—only about 11 times probable 1984 earnings. How come so cheap for a stock like this? The old story. Misguided diversification, in this case into computerized pharmacy services. By June 1983 total losses had come to \$8.5 million. After three years in the business I.M.S. threw in the towel this August, and announced it was selling the whole mess for \$1, taking an \$18.2 million writeoff in the process. Also on the chopping block is a smaller consumer marketing service. Without these drags, earnings prospects look mighty impressive to analyst Paul Brooke of Morgan Stanley. Now that the company has restated 1982 earnings as \$1.62 a share on the basis of continuing operations, Brooke figures I.M.S. will be up 17% this year to \$1.90. Next year he expects another 21% increase to \$2.30. And Brooke isn't making any allowance for a weaker dollar, which would help profits even more; over 60% of earnings are from overseas. Buy it, he says. How many solid growth stocks sell at just 11 times next year's earnings?—T.J.

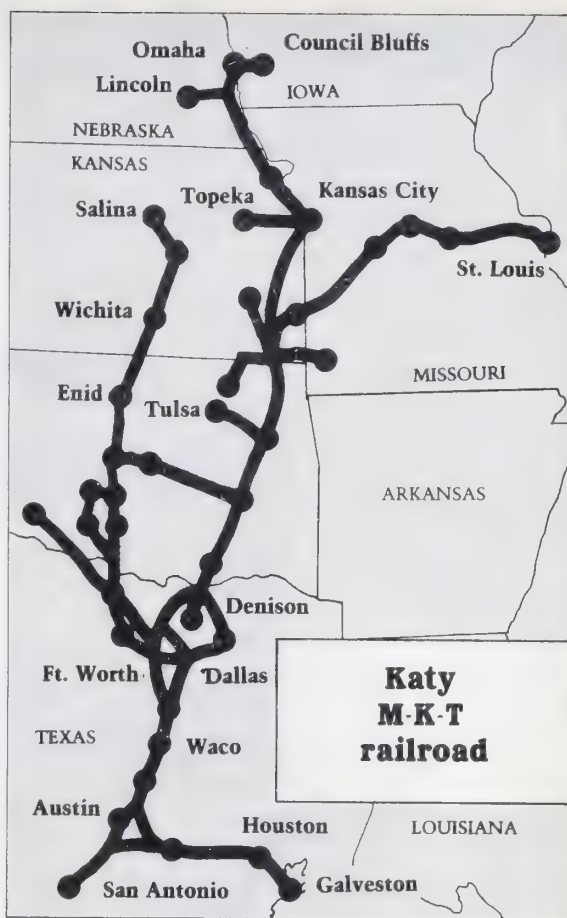
The uglier the better

The first bidder in a takeover contest rarely wins these days. His offer merely identifies a target, and somebody else comes in with a higher bid. But there's a good chance that Allen & Co. will succeed in its bold bid for a leveraged buyout of gas pipeline oper-

ator Northwest Energy at \$31 a share—\$575 million in all. Why? We asked natural gas analyst Gamble Baldwin of First Boston. Because, said Baldwin, "if Northwest were any better, all you'd just about need to do is announce the offer, have management turn it down, and presto, somebody else would come sailing in." But Northwest has plenty to deter any corporate acquirer: a probable writeoff from its investment in the Alaskan gas pipeline; relatively high-cost Canadian gas reserves; the fact that Allen & Co. has an option to buy at book value one of Northwest's crown jewels, the old Cities Service pipeline; and, last but not least, a staggering \$856 million in long-term debt. So, why is Allen & Co. interested? Because, as a private investor, it can concentrate on cash flow and forget about reported earnings and other frothy things that security analysts worry about. And Northwest has plenty of cash flow—\$675 million in 1982. As a private company, Northwest could forget about dividends and concentrate on reducing debt and recovering some of Allen's acquisition cost. After that? "I wouldn't be surprised," says Baldwin, "if they waited five or ten years or so and then tried to take Northwest public again. That way they'd make a bundle for themselves." With Northwest just the latest industry target, Baldwin expects other takeover moves against natural gas pipelines—even though the moves won't necessarily succeed. Some possible candidates: Texas Eastern, InterNorth and Panhandle Eastern.—T.J.

It's not all in the maps

Katy Industries is a mediocre, \$356 million (sales) grab-bag conglomerate that owns, among many other things, a shrimping fleet. It also owns the common stock of the Missouri-Kansas-Texas Railroad. The conglomerate's profits have been erratic since 1977, and until recently the P/E ratio of its shares reflected this. The high-



Katy Industries' M-K-T Railroad
A bumpier ride than meets the eye.

est multiple they carried during that period was 7 times earnings. So how come these days Katy is riding high at a recent price of 21½, or a P/E of 9? Because of that railroad. Katy carries it on the books at just \$1. But the railroad is the most direct line between Kansas City and Dallas and continues from there down to Galveston, right in the heart of the Sunbelt. With their eyes glued to the continuing consolidation of U.S. rail lines, speculators have now hauled out their maps and begun to ask what the Missouri-Kansas-Texas is worth in a merger. If its value is even \$100 million, they figure, that \$1 item on Katy's books is alone worth around half the present price of the conglomerate's stock. (On a fully diluted basis, Katy has around 10 million shares outstanding.) There's a hitch, however. The M-K-T's debt is \$225 million, and the company has a \$40 million negative net worth. The railroad is in good shape and will no doubt one day attract a buyer. When it does, it will yield some nice tax credits for the parent company. But we wouldn't count on a bonanza. Or even on a deal anytime soon.—T.J.

Statistical Spotlight

Satisfied to earn 6% on a very risky investment? If so, buy a package of computer and electronics stocks. You may get a few big winners, but don't expect your entire portfolio to shine.

Long odds at the circus



**By William Baldwin
with Diana L. Hoadley**

WELCOME BACK, Computer Usage. It was a glamour stock when computers were the rage in 1968. It fell. Now, in a new bull market, it is once again doing a high-wire act, at 130 times likely earnings for its current fiscal year. Its ups and downs should be of interest to anyone contemplating high technology as the path to riches.

Fifteen years ago this custom-programming outfit traded at 37, despite

negative earnings. That gave the whole company a price tag more than twice its \$13.6 million annual sales. Then the contract software business fell apart, and Computer Usage all but vanished. Last summer the stock was at 2½, and the employee count was down to 111 from a peak of 850.

Now, however, it's daredevil time again. Last week Computer Usage shares were up to 20 before a 3-for-2 split. That made the company worth an apparent \$17 million, almost twice its annual sales volume. Why? Computer Usage is out of the passé busi-

ness of custom programming. Instead, it sells software packages, such as a new \$700,000 program for commercial banks.

With its revived hopes, Computer Usage has at least survived, even though it shows a negative return for those who bought late in the technology stock craze that peaked in 1968. But FORBES has done some arithmetic. It shows what a sucker's game it is to play hot technology stocks when they are sizzling. Here's what our efforts reveal.

Going back to 1968, we assumed

A NO-RISK GROWTH CHART.

FROM KELLY SERVICES.

Lately you've seen real signs of growth—a chance to get your company moving again. You want to act.

But you need a plan.

Is there a safe way to staff up for growth without risking layoff-letdown if that growth doesn't last?

Kelly Services can be a safeguard in these unpredictable times.

Because with qualified help in over 100 job

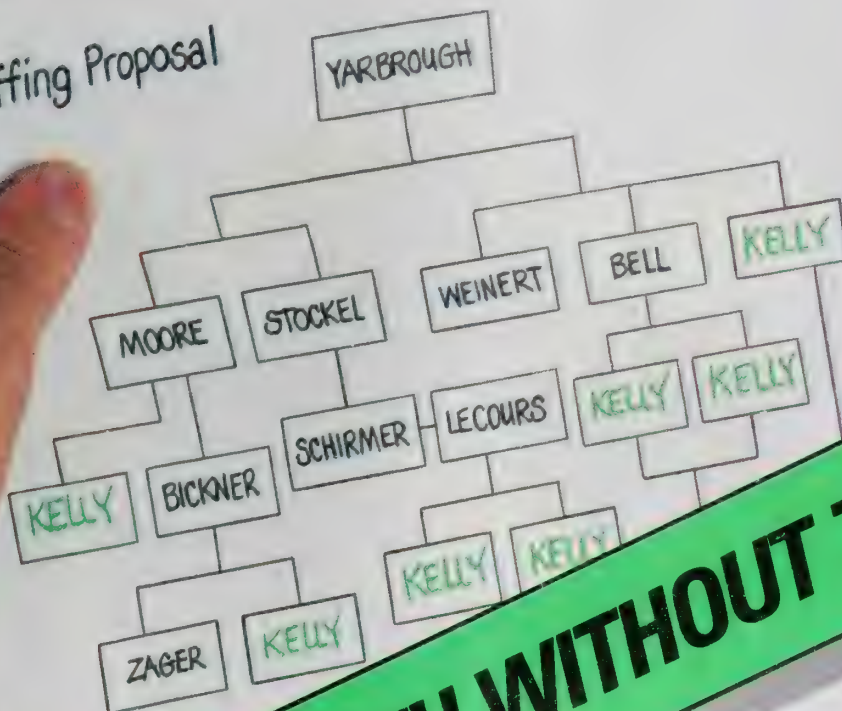
categories, Kelly can match the right person to each slot. And we're guaranteed 100%.

If it turns out the growth is steady—and you can begin hiring full-time help with confidence—terrific. Having Kelly temporaries in place will give you the time to find out for sure. And the time you need to find the right full-time people. (You won't be in a rush to hire the first applicants.)

So until you're sure about your growth, don't take unnecessary chances.

Give your local Kelly office a call today.

Staffing Proposal



TAKE THE GROWTH WITHOUT THE RISK.

KELLY The Kelly Girl®
SERVICES People

Center ring, 1968

On the basis of price relative to earnings, these 50 companies were the top computer and electronics stocks of December 1968. Of the group, 28 had a P/E multiple of 59 or

higher, and 22 firms were running at a loss. The average annual return since then comes to 3%, assuming proceeds of cash buyouts were reinvested at market rates.

Company	1968 sales (millions)	1968 P/E	Dec '68 price	—Recent value— per share	per \$1,000 invested
Advance Comp Tech	\$ 2.1	88	\$16.00	\$ 5.25	\$ 328
Aerovox Corp ¹	32.3	d	13.75	88.59	6,443
American Business Systems ¹	6.8	d	10.75	9.12	848
Am Computer Leasing Corp ¹	9.6	67	10.00	14.03	1,403
Applied Magnetics	12.0	63	14.02	28.00	1,997
Astrodata ²	26.4	d	757.50	2.50	3
Automatic Data Proc	15.9	62	5.84	36.50	6,246
Bunker-Ramo ¹	243.2	62	52.13	24.34	467
Calif Computer Products ¹	16.6	62	35.38	21.44	606
Computer Applications ³	42.8	59	19.50	0.00	0
Computer Equip Corp ²	18.4	60	16.38	9.63	588
Computer Investors Group	1.7	66	23.25	0.75	32
Computer Sciences Corp	53.4	72	21.80	17.88	820
Computer Usage	13.6	d	37.00	18.50	500
Computing & Software ²	33.7	62	41.75	21.13	506
Damon Engineering ²	15.7	88	31.67	26.00	821
Data-Control Sys	5.7	d	16.63	0.00	0
Dickson Electronics ¹	11.9	d	23.50	32.34	1,376
Digital Equip	57.3	70	19.26	98.00	5,087
Diodes	4.0	65	10.38	6.88	663
Electronic Assoc	43.9	d	22.63	13.75	608
Fabri-Tek ¹	18.6	d	12.50	7.42	593
Fairchild Camera & Inst ¹	198.5	d	82.88	109.74	1,324
General Atronics ¹	4.5	85	9.50	3.90	410
General Kinetics	2.9	d	6.00	1.25	208
Harvard Inds	48.6	80	37.50	18.63	497
Industrial Electronic Hardware	7.5	d	4.31	9.00	2,087
Informatics ¹	9.1	93	30.63	17.41	569
Intercontinental Systems ¹	NA	d	14.50	0.23	16
International Rectifier	30.0	d	17.75	35.50	2,000
Itek ¹	126.3	96	91.25	55.07	603
Laboratory for Electronics ²	52.9	d	24.61	14.63	594
Loral Corp	55.4	d	9.50	56.50	5,947
Management Assistance	66.9	d	57.00	10.25	180
Melpar ¹	49.5	d	9.75	16.13	1,654
Memorex ¹	58.3	64	82.25	17.47	212
Mohawk Data Sciences	44.5	94	67.75	12.63	186
National Semiconductor	7.2	71	5.56	49.25	8,864
Nytronics ¹	24.5	60	370.10	0.22	1
Planning Research	23.4	72	31.00	16.13	520
Potter Instrument ³	20.4	61	29.25	0.00	0
Scientific Resources ⁴	17.3	d	24.00	0.00	0
Sealelectro ¹	10.1	d	4.77	30.01	6,288
Servo Corp of America	5.5	d	12.50	11.75	940
Silicon Transistor ¹	4.0	d	13.00	2.34	180
Transitron Electronic	102.9	d	16.00	4.63	289
Tyco Labs	26.3	59	27.25	20.88	766
URS Systems ²	12.3	90	29.62	28.24	954
Varian Assoc	170.8	63	16.94	55.25	3,262
Wang Laboratories	16.6	64	3.34	33.13	9,925

¹Acquired ²Name change ³Bankrupt ⁴Liquidated d deficit NA not available
Sources: Commerce Clearing House's Capital Changes; Moody's Industrial Manual; Forbes

Statistical Spotlight

that an investor bought \$1,000 worth of stock in each of the 50 computer and electronics firms with the highest price-to-earnings multiples, as tracked by a familiar statistical service. A handful of the companies turned out to have been worthy of the high hopes placed on them. Wang, the word processor pioneer, has compounded its earnings per share at 30% annual rate. National Semiconductor, which makes integrated circuits, did almost as well.

The relevant question, however, is average return. A total of \$50,000 invested in these 50 companies 15 years ago would leave you with \$78,400, assuming the proceeds from liquidations were invested at market rates. That isn't impressive, an annual return of roughly 3%. But consider that inflation has made the dollar today worth scarcely one-third of what it was in 1968. The real return on our high-tech portfolio turns out to be minus 4% a year. You would be peeved at any mutual fund that failed to do better.

Why did things turn out so badly? In some ways, the electronic data processing business has outdone itself. IBM's earnings now are almost as big as its sales were back then. The computer industry—hardware, programming and data transmission combined—has quadrupled in real terms to a volume of \$100 billion a year. Yet the rewards didn't go to the investors in speculative computer stocks. They were crowded aside by later sources of capital and by brand-new companies. Wars, in short, are not necessarily won by the party that comes out ahead in the first skirmishes.

Now, examine the table on page 220. Here are listed today's equivalent, an assortment of 50 computer and electronics stocks with negative earnings or enormous P/Es. Imagine that the 50 corporations merge tomorrow to form Hightech Inc. What kind of company would you have? Hightech would have annual sales of \$4.3 billion and no earnings. Still, the market values it at \$4.3 billion.

Anyone who buys one of these stocks hopes that he owns the next IBM. Even so, however, the investment isn't likely to make him rich. Let's suppose Hightech's sales per share grow over the next 15 years, in real terms, as fast as IBM's have since 1968. Let's suppose, optimistically, that Hightech becomes the equivalent of IBM in its product lines, that it matures into a cash-generating

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Wall Street loves these technology firms. Half have deficits, the others P/Es over 100. Surely, some will be staggering successes. But others will

go bankrupt. Even if the group by 1998 matches IBM's recent 15-year performance, shareholders will earn only 6% after inflation.

Company	Sales (millions)	Recent price	—52 week— high low	Latest 12-month EPS
AEL Industries	\$ 53.8	41	44 1/4—12 1/2	\$0.24
Arrow Electronics	403.8	29 7/8	34 — 9 3/4	-0.60
AW Computer Services	1.5	14 1/2	19 1/2— 2 1/2	-0.12
Biospherics	5.3	5 1/2	7 — 3 1/4	0.04
Centronics Data Computer	82.4	24 1/4	28 — 6 5/8	-3.20
Codenoll Technology	0.4	14	21 — 5	-1.07
Comdial	48.8	25 1/4	32 5/8— 6 7/8	-0.04
Computer Memories	2.4	21 1/4	30 — 3 3/8	0.12
Conolog	3.8	3 7/8	4 3/4— 3/8	0.02
Dataspeed	0.2	23 1/4	29 1/2— 5 1/2	-0.36
Denelcor	1.0	14 1/8	17 — 6	-1.56
Detection Systems	9.3	8 3/4	12 — 5 1/2	0.07
EDO	101.8	27 5/8	34 1/8— 8 3/4	-0.58
EEDO	35.3	14 1/2	15 1/2— 6 1/2	-0.32
Energy Conversion Devices	19.8	42 1/2	45 —16	-1.68
Hadron	30.6	3 1/8	4 1/8— 1 1/2	0.03
Health Information Systems	6.1	27 1/2	33 1/2— 4 3/8	0.09
Intermagetics General	5.8	15 3/4	22 5/8— 9 3/8	-1.44
International Rectifier	119.2	35 1/2	44 7/8— 7 3/8	-1.65
La Pointe Inds	6.7	7	8 1/4— 1 3/4	0.05
Lynch Communications	54.9	13 3/4	14 3/4— 7 7/8	-0.46
Measurex	118.1	30	34 7/8—13 3/8	0.12
Nashua	597.7	26 3/4	28 3/4— 8 7/8	-7.88
Nicolet Instrument	93.9	18 1/4	19 1/4— 7 5/8	0.15
Numerax	5.6	13 1/2	22 3/4— 6 5/8	0.09
Object Recognition Systems	0.3	13 3/4	16 3/4— 4 1/2	-0.69
Odetics	24.2	13	31 — 7	0.12
Optelecom	2.5	8 1/8	10 3/8— 2 3/8	0.06
Radiant Technology	4.9	1 1/8	1 1/4— 1/4	0.01
Ragen Precision Inds	31.2	17 5/8	24 1/8— 5 1/2	0.10
Recognition Equipment	112.4	14 1/4	16 5/8— 4 1/4	0.12
REFAC Technology Dev	8.6	17 1/2	20 3/4—11	-0.37
Rexon	9.9	14 1/2	19 — 3 1/8	-1.19
RV Weatherford	43.6	37	43 1/2— 3 1/2	-1.45
Scientific-Atlanta	337.2	18 7/8	22 1/2—10 5/8	-0.31
Semicon	24.5	8 1/2	12 — 4	0.07
Semtech	11.7	8 1/8	10 — 3	0.05
Silicon Systems	16.0	21 1/8	25 1/8— 7 3/8	-0.70
Siltec	39.4	20 3/4	26 1/2— 8 1/4	-0.06
Spectra-Physics	137.0	30 3/8	37 1/4—13 1/8	0.04
Switchco	NA	9 1/4	11 1/8— 3	0.07
Syntrex	30.4	9 7/8	12 1/2— 5 3/4	0.02
T-Bar	29.6	11 3/4	17 — 6 1/2	0.03
Technology Marketing	7.8	2 5/8	4 5/8— 2	0.02
Tesdata Systems	13.9	13 7/8	17 1/4— 3 1/4	-0.03
TII Industries	23.1	18 3/4	23 3/8— 6 3/4	-0.89
Transitron Electronic	100.8	4 5/8	6 7/8— 2 3/8	0.01
United Telecontrol Electronics	4.5	21 1/2	23 — 3 1/4	0.15
Wyle Labs	207.7	17	20 — 5	-0.18
Xicor	0.3	19 1/2	27 — 6	-1.51

NA: Not available

Source: Wilshire Associates

Statistical Spotlight

business with steady earnings, IBM's top-of-the-market profit margin of 13.5% and IBM's multiple. Then Hightech in 1998 would have a market value of \$10 billion, providing a real annual return of just under 6%. Treasury bonds might do better.

One could argue that it's unfair to pick 1968 for comparison. Not surprisingly, starting from the lows in the winter of 1974-75 would have given very different results. That time was the pits for hot little stocks. If you had bought Aydin, Prime Computer, SCI, Computervision, Commodore or Gerber Scientific at that ideal juncture you would be sitting on gains of 10,000% to 20,000% now.

Is today's market more like 1968 or 1974? Judge for yourself. In 1974 Aydin Corp., a maker of computer displays and military electronics, was going for 2 times earnings. SCI was trading below book value. Computer stocks like those were almost pure Ben Graham bargains.

It's possible to be optimistic, and mostly right, about the future of technology and still remain poor. Victor Bartoletti, who has been running Computer Usage since 1970, recalls the firm's investment banker having said during the computer frenzy of the late 1960s: "We know there will be more money spent on software than on hardware. Therefore, out of these software companies is going to emerge a giant larger and more successful than IBM."

The investment banker was on target about the declining cost of hardware, which takes 45% of the data processing dollar, down from 60% in 1968. But he was wrong about software companies. Within a few years it became apparent that contract programming houses were no more like IBM than a firm of accountants or doctors. "They shouldn't have been taken public, in my opinion," says Bartoletti.

Not surprisingly, Bartoletti, Computer Usage's largest shareholder, sees the 1983 version of his company in a different light. "It's going to be a big, big seller," he says of his new \$700,000 program. But since neither Bartoletti nor any of the rest of us are gifted with an ability to see the future, it's safe to say that technology and the business of exploiting it are going to veer off in unexpected directions. Which means that the legendary Hightech Inc. is going to have lots of unpleasant surprises in store for its hypothetical stockholders. ■

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intent of our founding fathers? We don't think so.

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The Money Men

Buy low, sell high; it's the oldest cliché in the books. Tony Hitschler modifies the formula: Buy low, sell partway up.

Buy 'em when they're friendless

By Thomas O'Donnell

TONY HITSCHLER, the easygoing, 45-year-old president of Provident Capital Management, keeps a telescope aimed out a window in his 15th-floor offices. Has he seen anything exciting? "Never," he quickly answers. "Don't forget, this is downtown Philadelphia."

Hitschler's money management, like his people-watching, is often dull. "I'm going to spend my life in this business and never ride a stock to the top," says the Princeton-educated doctor's son who, with six associates, runs a nice round \$1.1 billion portfolio. Hitschler buys stocks with low price/earnings ratios and sells them when that number starts rising.

He began buying energy stocks late last year when they were worse than friendless. Now that they have at least a few friends, Hitschler is losing interest and is moving out. "Sure," he says, "they'll probably continue to rise, but now the risk is increasing. A little disappointment and they'll go right into the tank."

Hitschler's strategy is to buy into situations that are already down, so they won't tumble on bad news. "We make money by avoiding risk and acquiring stocks that will be profitable when the market recognizes their value," he says, adding that since 1938 the stocks that meet these guidelines have risen five times faster than broad market indexes.

A good example is Allied Corp., which few investors liked last year

after its acquisition of Bendix. "Nobody knew how the two companies would fit," says Hitschler. "The Street thought [Allied Chairman Edward] Hennessy was an egomaniac."

Allied's stock price fell from 40 to 32, and Hitschler bought nearly 200,000 shares. That got him a four-hour interview with Hennessy, enough to convince Hitschler that Allied's boss had a strong strategic plan. So Provident bought more, making Allied its second-largest holding at a



Tony Hitschler of Provident Capital Management
Start at the bottom and never reach the top.

final total of 400,000 shares. Then the stock started moving up, and Hitschler, of course, sold. Average buying price: \$35. Average selling price: \$52. A killing? No, but what's wrong with 50% on your money in just one year?

Not a thing. Provident's equity accounts have averaged a 13.3% annual gain for the last ten years—2 points

better than the S&P's 500. The firm relies on both personal judgments and a precise system in making selections. To qualify, a stock must have a P/E ratio low enough to put it among the lowest 40% of all companies with capitalizations of \$100 million or more. That leaves the Provident money managers a potential buy list of approximately 500 firms.

Provident then analyzes these stocks according to other criteria: Return on equity must be rising, and equity must exceed debt. A Provident money man can buy stocks outside that group, but rarely does; if he loses on a high-P/E company, he may sacrifice a bonus and merit pay.

You might have noticed that earnings projections don't figure much in Hitschler's formula for Provident's investments. That's because he thinks most earnings projections are nearly worthless. He doesn't think much of analysts' reports, either, but he does manage to use them in a perverse way. "Whenever 30-to-50-page buy recommendations come across my desk," he explains, "I'm almost certain it's time to sell. And when the reports are negative, I buy."

The past year has been a good one for Hitschler, despite his current limp from a tennis-sore knee. It's also been

good for Provident, a subsidiary of Provident National Bank. The firm's investment portfolio is up 71%, compared with a 61% gain for the S&P's 500. "The kinds of stocks we buy always do well when the economy pulls out of recession," Hitschler explains. The only time they tend to underperform, he adds, is when the economy is softening—as it obviously was in 1974 and 1980.

If this style of investing works so well, why doesn't it have more followers? One reason is that many professional investors use a "top down" approach. They make assumptions about the economy, an industry or product and then find companies that fit them. Hitschler starts from the "bottom up" analyzing companies and makes one assumption: It's impossible to predict the future consistently.

Though he is an optimist by nature, Hitschler sees more opportunities in bad times than in good. A little over a year ago, for example, the market outlook was bleak and he was fully invested. But today's high market trading

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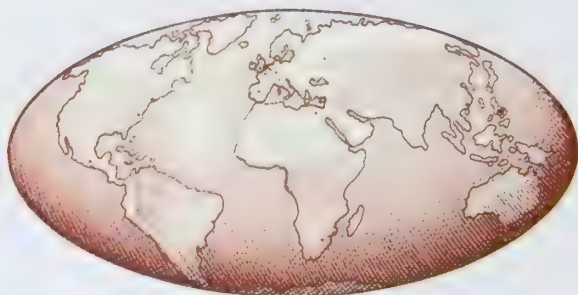


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The Money Men

bles him, and he's not expecting it to go much higher. Provident recently sold about 15% of its portfolio, parked the proceeds in cash, and started looking for buys. It took three weeks to do the liquidating. "I couldn't get any bids. That's a bad sign."

It isn't the only one Hitschler sees. He doesn't like the fact that stocks even on an earnings basis and according to his calculations for growth, can yield less than high-grade bonds. "The market's 11% yield is below that of long-term Treasuries, and there must be 3 pounds of red herrings on my desk," he says. "New issues are extremely vulnerable."

Hitschler's strategy, of course, is hardly original nor is it unique: The woods are full of low-P/E types. But Hitschler and his colleagues at Provident

"Don't forget, this is downtown Philadelphia. Because of our Quaker roots and the belief in fair play, we want to make sure we get what we pay for," explains Tony Hitschler. "That's why we insist on stocks that have low price-to-earnings ratios."

dent have had the discipline to stick with it—not an easy task, considering that when stocks are out of favor there are always good reasons for their being out of favor. Provident's version of the strategy was developed by the company's former chief of research Francis Nicholson. After years of study, Nicholson became an advocate of low-P/E stocks; he proved statistically that they offer superior long-term performance.

Such strong research and conservatism are common to Philadelphia money managers. "Because of our Quaker roots and the belief in fair play, we want to make sure we get what we pay for," says Hitschler. "That's why Delaware Management focuses on dividend streams, we insist on low P/E's and Windsor Fund is interested in P/E's and book value."

At the moment, Hitschler likes undervalued and defensive drug, food and consumer companies. His favorites: SmithKline, Eastman Kodak, Lilly, Procter & Gamble, Dart & Kraft. He's also especially partial to Hershey. "Absolutely no concept and no sex appeal," he explains. "That's why I love it." ■

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Investors often think of new accounting rules as unimportant footnotes. But sometimes they bring about big changes in the way companies do business.

RJR's foreign coup

By Christopher Power

WHEN NEW ACCOUNTING rules come out, investors often yawn. Not so corporate financial officers. Even though accounting procedures sometimes seem like exercises in angelic pin-dancing, they often can change the way companies do business.

Case in point: R.J. Reynolds Industries' actions to cope with Financial Accounting Standards Board rules about foreign currency translations. Few have been happy with reform efforts in this area. When FASB-8 came out in 1975, the criticism was deafening. FASB-52, a revision issued in 1981, was better—but far from perfect. "If they had left the whole damn thing alone, we all would have been better off," says John Dowdle, Reynolds vice president and treasurer.

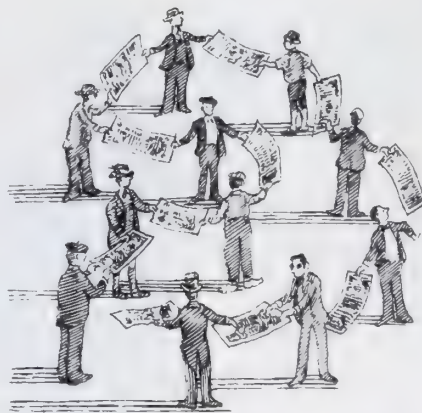
But officers of Reynolds, which gets 34% of its \$13 billion annual revenues outside the U.S., have done more than complain. They have turned the FASB's edicts to the company's advantage. The cornerstone of this effort is a global system that centralizes the financing needs of 327 subsidiaries and branches, which have dealings in 82 currencies.

Obviously, global networks like Reynolds' don't spring up overnight. The work began when FASB-8 was in effect. Then fluctuations in currency exchange rates showed up directly—and often dramatically—on income statements. To avoid such troublesome whipsawing, Reynolds opened regional treasury offices in London and Hong Kong to keep tabs on worldwide cash flow and to direct local borrowings. In June of last year, the

corporation approved plans for R.J. Reynolds Finance S.A. in Geneva to oversee financing worldwide.

But then came FASB-52, which in many cases reduced the volatile earnings swings that corporate officers had been complaining about. But not without cost. Under the new rule it is even more important for companies to monitor foreign subsidiaries' currency dealings.

This stems from the way FASB-52 works. Companies must choose what's called a "functional curren-



cy"—basically the dominant currency of their economic environment. If the functional currency is the local one, the rules allow translations to flow directly to the equity section of the parent's balance sheet but not the profit and loss statement.

So far, so good. But FASB-52 still presents problems. If a subsidiary uses a foreign functional currency, it must apply current exchange rates to non-monetary items like inventories as well as to monetary items like liabilities. That means the possibility of

dramatic changes in equity. Hardly panacea.

Reynolds, however, was ready to play by the new rules before most corporate treasurers even knew what they were, and, in effect, turned FASB-52 to its advantage. There are three key elements.

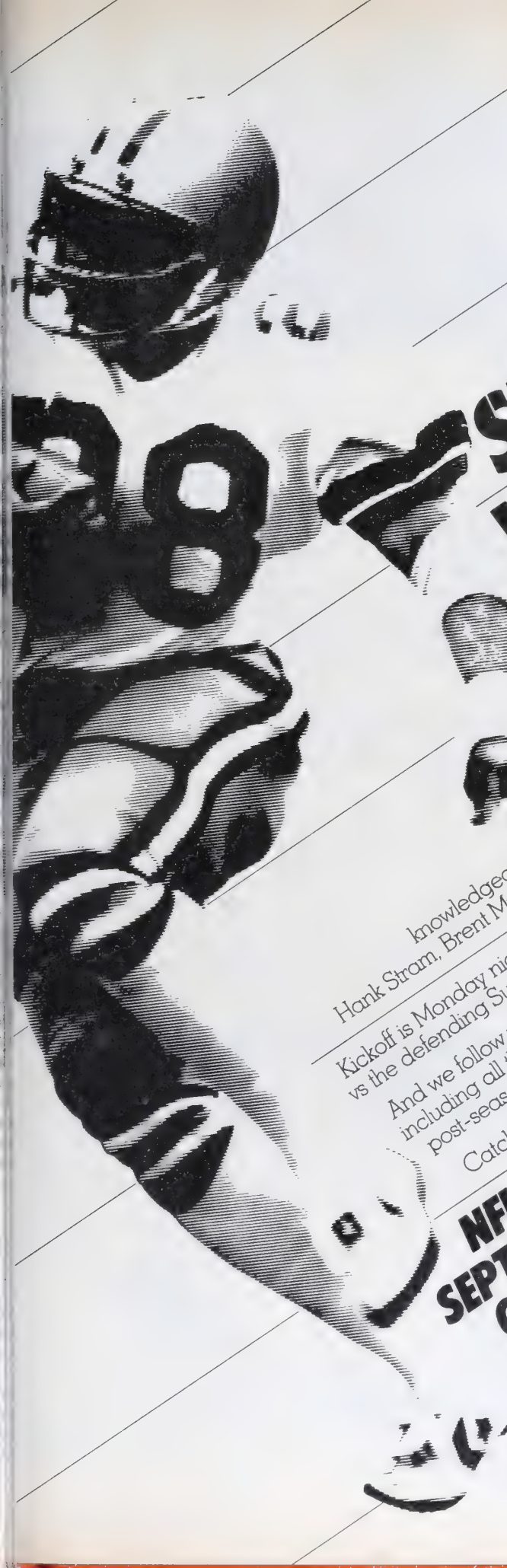
- **Intracompany trading.** Most financial dealings among Reynolds subsidiaries are channeled through the Geneva company. This doesn't eliminate the risk of a hit to equity through currency fluctuations, but it does concentrate the exposure to currency fluctuation at one point—making it easier to net out.

- **Borrowing.** To finance a company, Reynolds makes a point of borrowing mostly in the local functional currency. So, even if the currency has wild swings compared with the dollar, Reynolds subsidiaries and the parent are insulated. Think about it. A U.S. firm doing business exclusively in the U.S. doesn't worry about how the German mark is doing.

- **Hedging.** "When you handle the financing of 25 currencies, a lot will net out," says Dowdle. "What doesn't net out, you can hedge." Under the revised rules, any corporate borrowing in a subsidiary's functional currency can be designated as a hedge and used to offset the exposure of the subsidiary's entire net assets. By the same token, any asset can be used to hedge a net borrowing position.

If, for example, a company has \$1 million in exposed assets in a foreign currency, another \$10 million in debt becomes an effective hedge—even if the loan is for an unrelated project. Better yet, the company can also make the hedge designation on borrowings that have already taken place. Gains and losses from the currency translations that involve the hedged debt are balance sheet items. Nonhedged transactions, which aren't done in the functional currency, go right to the income statement where the impact is more visible.

All this illustrates the impact the FASB is making on international finance, and it is a curious switch. Instead of conforming to reality, the board now has the dubious pleasure of seeing reality conform to it. "Bottom line, big picture, that's the impact of FASB-52," says Lawrence Best, an Ernst & Whinney partner. "More and more companies are centralizing the treasury management function. Those that don't may operate at a disadvantage." ■



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When public companies file for bankruptcy, their stock listings don't die. They just fade slowly into the West.

Purgatory on the Pacific

By Thomas Jaffe

ABSOLUTELY UNBELIEVABLE." That's how James Gallagher, president of the Pacific Stock Exchange, describes the day in May when 1.8 million shares of Braniff International changed hands. At one point the stock, which finished the previous day at $2\frac{3}{4}$, hit $6\frac{1}{2}$. It closed at $4\frac{3}{8}$. A staggering 59% gain.

Why the frenzy? Hyatt Corp.'s plan to bail out the bankrupt airline. Even so, should one day's turnover amount to 9% of a company's float? That's a record for the PSE. "It is the equivalent of a single stock on the Big Board moving 40 million shares," says Gallagher, who formerly headed market operations at the New York Futures Exchange. "The most trading I ever expected to see in one of our locals was maybe 1 million shares."

Braniff isn't the only bankrupt listed on the PSE, either. There are 12 more, ranging from AM International to Wickes (see table). Like many New York Stock Exchange stocks, ten of these companies were once listed dually on the PSE. Eventually they lost their Big Board status. Then the California exchange, which has trading floors in Los Angeles and San Francisco, became their primary home. Hence the term "locals."

As Gallagher explains things, the decision to let Chapter 11s continue to trade on the PSE is a boon to investors. The stocks get a visible and orderly trading environment, with a

specialist for each stock. Something else, however, may be more significant. While margin trading is limited in the over-the-counter market, it is allowed on all the PSE bankrupts.

This leverage is particularly appealing to the speculators who buy such shares. The result:

Even though these listings account for no more than 5% of total PSE volume, their low prices and heavy volume draw lots of customers.

They are all making risky investments. Besides being subject to violent price swings, bankrupt stocks are the favorites of some unusually smart professionals—guys who love to prey on amateurs. "If I'd been the specialist in

Braniff," says one pro, "I'd have been slobbering all over myself to borrow shares to short at 6 or $6\frac{1}{2}$." The current price: $1\frac{5}{8}$.

How come tales of such volatility don't turn off more investors? "We're conditioned to believe that disasters are an inefficient segment of the market," says John Goode, chairman of San Francisco's Davis, Skaggs & Co. "Because companies like Penn Central and Chrysler emerged from their troubles successfully, everybody now thinks the whole bankrupt group is cheap. Also, investing in bankrupts used to represent the classic contrarianism. But these days contrarians have become the consensus."

Goode contends that most bankrupts are overpriced, not underpriced. Between last August and May of this year the total price of the PSE's bankrupts rose nearly 150%. "These stocks are overpriced before their reorganization plans have even come out. There were many investors who made a killing in Penn Central after the courts had decided what the new capitalization would be."

The allure of the bankrupts, however, continues to grow. And the NYSE doesn't want to lose this action. It continues to list four Chapter 11 stocks: HRT Industries, Manville Mesta Machine and Revere Copper & Brass. "Bankruptcy does not automatically mean de-listing," says a Big Board spokesman.

Some old hands, though, don't think that keeping bankrupt companies on the NYSE will bring respectability. "When it comes to trading in Chapter 11s," snickers one PSI broker, "the difference between them and us is like the difference between a courtesan service and a whore house." ■

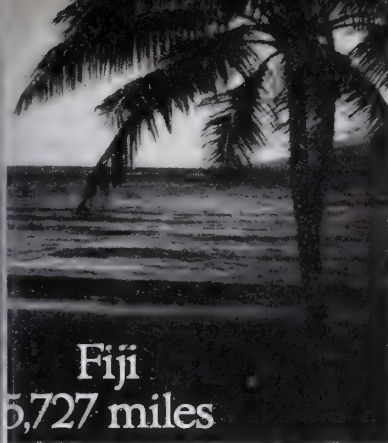


A baker's dozen bankrupts

These 13 companies may be bankrupt, but they still trade on the Pacific Stock Exchange. These days, volume is brisk.

Company/business	Bankruptcy filed	Outstanding shares (mil)*	Recent price	—52-week— high low	
AM International/business equip	1982	10.2	$5\frac{1}{2}$	7	—1
Berven Carpets/carpets	1982	3.7	$\frac{3}{8}$	$1\frac{1}{2}$ —	$\frac{1}{32}$
Braniff Intl/airline	1982	20.0	$1\frac{5}{8}$	$6\frac{1}{2}$ —	$\frac{7}{32}$
Dant & Russell/forest products	1982	0.8	$2\frac{1}{2}$	$4\frac{1}{2}$ —	$1\frac{1}{8}$
Gilman Services/wholesale drugs	1982	3.2	$1\frac{1}{16}$	3	— $\frac{3}{8}$
Itel/trans equip leasing, fin svcs	1981	12.1	$1\frac{5}{8}$	$2\frac{13}{16}$ —	$\frac{3}{8}$
KDT inds/retail	1982	7.3	$\frac{3}{8}$	$1\frac{5}{8}$ —	$\frac{1}{32}$
Lionel/electronics, toys	1982	7.1	$4\frac{7}{8}$	$7\frac{3}{4}$ —	$2\frac{1}{4}$
Sambo's Restaurants/restaurants	1981	12.8	$2\frac{1}{2}$	$4\frac{3}{4}$ —	$1\frac{1}{16}$
Saxon Inds/business equipment	1982	7.8	$1\frac{7}{8}$	3	— $\frac{7}{16}$
Seatrains Lines/tankers, chartering	1981	14.5	$1\frac{1}{16}$	$2\frac{7}{8}$ —	$\frac{1}{4}$
White Motor/automotive	1980	9.4	$\frac{3}{4}$	$1\frac{1}{16}$ —	$\frac{1}{32}$
Wickes Cos/retail	1982	14.4	$6\frac{1}{4}$	$8\frac{1}{8}$ —	$2\frac{1}{16}$

*Data supplied by Pacific Stock Exchange



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5,727 miles



New Zealand

6,653 miles



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For investors, the key to the new AT&T is that it will be an industrial company, not a telephone company.

BELL WITHOUT THE TELEPHONES

By Ben Webberman



There is currently outstanding about \$48.5 billion in debt issued by AT&T, its 22 subsidiaries and Western Electric. If you want to know what the analysts think quality and marketability will be after the Bell breakup, you'll be disappointed. The experts are keeping their heads down. Instead of advising clients to buy, sell or hold, they are saying virtually nothing.

So, what does the poor investor do? Since somebody must do it, I'll rush in where others fear to tread.

To begin with, the parent company will be stripped down to AT&T Communications (Long Lines), Western Electric, Bell Labs, AT&T Information Systems and AT&T International. It will be more industrial than utility. The AT&T Communications (Long Lines) unit is very profitable and has strong growth prospects despite the inroads of companies such as MCI, ITT and GTE-Sprint. But even faster growth will come from Western Electric, Bell Labs and the consumer marketing arms, which will be offering new products.

So, what are the market implications? Historically, industrial debt issues sell higher and yield less than similar-quality utilities. For example, Bell subsidiary debt, not including parent AT&T, is now trading to

yield about 130 basis points (1.3%) more than Treasuries on current coupon issues, while the spread generally for blue chip industrial debt is closer to 75 basis points. So, at the current market rate you should get about 13% on top-rated Bell bonds vs. about 12.45% on top-rated industrial bonds.

The implications of the breakup for AT&T debt thus start to become clearer. Together, the parent company and its Western Electric subsidiary have about \$9.1 billion of bonds outstanding. The highest domestic coupon issue is the 13¼% note due 1991. Trading at 104, these securities yield about 13% to maturity against a yield of about 11.9% for 8-year Treasury notes. The question is: Which is the best relative value? There's a lot to be said here for the AT&T debt issues. Why? Because the company's goal after the splitup, according to S. Lawrence Prendergast, assistant treasurer, is a debt-to-capital ratio of no more than 30%. It will be very close to that ceiling at breakup time. Result: For some time the new AT&T won't be selling new debt; it will be generating capital internally. The price of AT&T bonds, therefore, will stay high compared with Treasury issues, and the yield spread will be narrow. That spread currently is about 90 to 100 basis points—below average—but it is likely to shrink.

Further, AT&T is determined to hold its S&P's AAA rating and to get back its Aaa rating from Moody's, downgraded to Aa1 last spring. Moody's apparently wanted protection against any adverse court rulings as the split progresses. "If nothing bad comes out, Moody's can always upgrade," says one analyst. "If the news is bad, it can claim, 'I told you so.'"

So, if AT&T wants highest quality ratings, it must maintain impeccable financial ratios. Take a look at the numbers now. For the Bell System as a whole in 1982 interest was covered 2.53 times aftertax, more than 87% of cash needs were generated internally and the ratio of debt to capital was 42.4%. Data for the parent company by itself are not public but they probably beat all these standards by a wide margin. Thus, I think there is little prospect of further downgrading.

Any of the Bell System subsidiary company debentures will carry slightly greater risk. As the operating companies are formed into regions, the differences between poorer and better quality Bell subsidiary debt will be reduced. Initially, at least, the market for Bell sub debentures will benefit from scarcity because the parent company's goal is to divest the subsidiaries "in sound financial condition."

The parent company AT&T debentures are more appealing than Treasuries at the moment, and readers know that I am bullish on Treasuries. The spread should narrow as AT&T benefits from a scarcity value on its securities as it abstains from marketing new issues for a year or two. When the company becomes identified more with industrials than with telephone utilities, the spread will narrow further.

Among Bell subsidiaries, there has traditionally been a difference of about 20 basis points between the best regarded and the least popular. Some bonds issued by the latter such as Mountain States and Pacific Telephone and which pay 130 basis points more than Treasuries are more attractive than high grade issues such as New York Telephone which pays only 110 basis points more than Treasuries. When these companies are merged into one or another of the regionals, the differences will disappear.

By the way, the AT&T splitup next Jan. 1 has good implications for AT&T equities, too. Telephone common was always the archetypal widows' and orphans' stock. After breakup, AT&T will be recognized correctly as a high-technology growth company. The stock will be more volatile and the price/earnings ratio ought to be far higher than the current below-market 8.4. ■

Ben Webberman is economics editor of FORBES magazine.

The current new-issues market proves once again that the more things change, the more they are the same.

NO, THEY NEVER LEARN

By David Dreman



That new issues today are trading at insane levels is no secret. *FORBES'* Richard Stern and Laura Saunders spelled out the zaniness clearly in the Aug. 1 issue. The real question is what will happen to the rest of the market when the bubble is punctured. When the paddy wagon finally shows up, does everyone go?

No doubt, the speculation is entering the last frenzied stage. When else do you get microchip-size computer companies offered at 300 times earnings? Or ex-felons who want to sell you shares in a company that proposes to run bingo games on Indian reservations? Or else, one so exciting that its prospectus indicates that, for competitive reasons, it cannot give you a clue as to what it is doing? The final days are clearly recognizable to anyone who has ever read about the South Sea Bubble. No, they never do learn.

As *FORBES* pointed out, crowds will be crowds, whether they are made up of institutional investors or just plain Joes, and this speculative crowd is no different from any in the past. Each crowd needs a new generation of hot-issue promoters to lure it in, whether it is today's First Jersey Securities or Southeast

Securities of Florida (headquartered, naturally, in Hoboken, N.J.), the Sixties' Charlie Plohn or the South Sea Bubble crew of the early 18th century.

But back to the question. What happens to high-quality stocks when—not if—the new-issues market blows apart? Is this speculation, as many experts state, simply the inevitable froth in the final stage of an overpriced market? Or is it an excess in a market still quite healthy?

I opt for the second thesis. I would argue that this is hardly the end of the bull market.

Here's why. First, the market as a whole was greatly undervalued a year ago and, even at today's prices, is still cheap. This means that when the speculative areas collapse, there should be no long-term effect on higher-quality issues.

The 1961-62 market illustrated this point. The period witnessed the wildest new-issues, high-tech boom since the Twenties. The market corrected over 15% in 1962, then went on to substantially higher levels in the next few years. Not surprisingly, though, the correction buried the new issues and emerging growth companies. Not 1 in 20 recovered! The same new-issues game was played with even greater vigor in 1967-68 and resulted in a more devastating wipeout in 1970, although the general market went on to new highs by 1972.

The new-issues collapse, then, should not have a lasting effect on a market still loaded with value, although it may end the budding TV career of the president of First Jersey Securities, who touts his company regularly on the tube.

If the market presents the solid base I see, any downdrafts in the general market will only wipe out

some of the excesses, but the averages should hit new high ground again in the not-too-distant future. The sharp losses in the speculative areas also may well result in a flow of money directed into higher-grade securities by people who have once again found religion.

The low-P/E companies I favor should be prime beneficiaries of an environment such as this. Three I would look at here:

For starters, what about *Ma Bell* (65)? After the breakup early next year, the company will be divided into seven regional operating firms, as well as the parent, which will provide long-distance service and manufacture and lease equipment. In addition, it will own Bell Labs, one of the world's finest private research organizations, which should deliver some exciting new products in the next several years.

AT&T will probably lose future share in the long-distance market, but this should be more than made up for by rate increases for the regional companies, many of which are near break-even, even without the current subsidies on the long-distance calls. Earnings and dividends increases could be significant over the next few years. The stock trades at a 13% discount from book, at 8 times earnings and yields 8.3%.

CIGNA (41), as a result of the merger of Connecticut General and INA, the nation's second-largest publicly owned insurance company, recently has been knocked down over 15% because of disappointing second-quarter earnings, partially attributable to continuing costs of integrating the merged company. Earnings should be flat through the second half of 1983 and then move up sharply with the cyclical recovery in 1984. *CIGNA* trades at 7 times earnings and yields 5.8%.

Unilever N.V. (67) is a giant consumer products company, with the bulk of its operations in depressed Western Europe. Income should begin to pick up sharply next year, as the European economic picture improves. The stock trades at 7 times earnings and yields 6.2%.

A year or so from now, the current prices of some of today's hot, little technology offerings are going to look ridiculously high, and the current prices of many quality stocks ridiculously cheap. ■

David Dreman is managing director of Dreman, Gray & Embry, Investment Counsel, New York, and author of The New Contrarian Investment Strategy.

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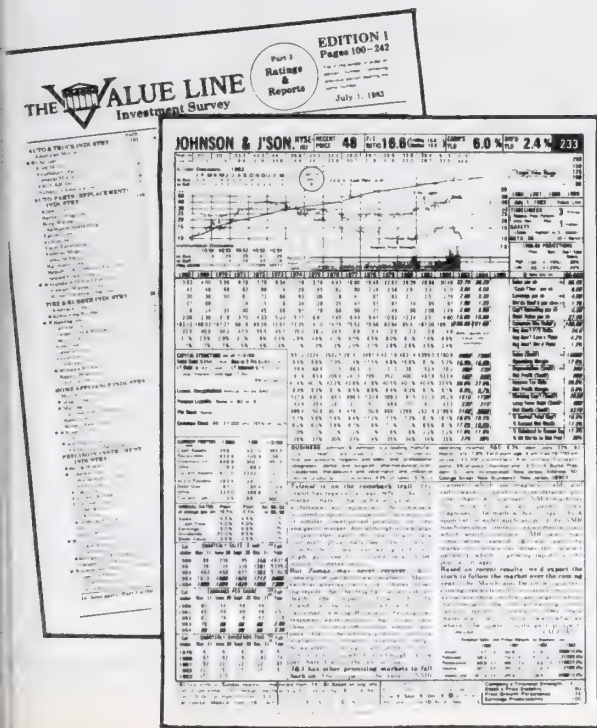
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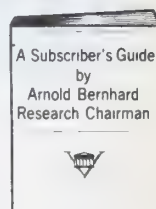
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Investors in tax brackets of 30% or less don't belong in municipal bonds. Yet they are buying them in record numbers.

WHAT PRICE TAX AVOIDANCE?

By **Srully Blotnick**



Municipal bonds reached a crossroads in 1981, as far as I am concerned, because it was the first time that more than 10% of my sample became seriously interested in them. They suddenly seemed to replace real estate as the hot new topic on the cocktail party circuit.

People who previously got wild-eyed when describing a condo they had picked up "on spec" and on which they expected to double their money in a matter of months, were now excitedly singing the praises of triple tax-exempt income (no federal, state or city taxes).

It took bond brokers a while to realize that the ground swell of retail interest they were seeing had reached sufficient proportions to warrant expensive TV campaigns. They were following the trend, not leading it. It had been in the making for a number of decades. Statistics compiled by the Federal Reserve show that, subject to cyclical swings, households had been increasing their holdings of state and local government obligations by more than 700% in 30 years, from \$9 billion in 1950 to \$75 billion in 1980. However, until fairly recently they were interesting only to the relatively rich. According to a

number of surveys conducted during the mid-Seventies, more than 70% of these obligations were in the hands of people whose marginal federal income tax rate exceeded 50%.

Aggressive television advertising has helped change this. It has brought into the fold large numbers of investors who are in tax brackets that are substantially less than 50%. Surveys have shown that 20% of the 10 million American municipal bondholders were in tax brackets of 30% or less. The indications are that this proportion has been growing.

The primary reason that so many investors in tax brackets well below 50% owned municipals in the past is that they bought the bonds while they were still working and held on to them until after they had retired. Their incomes and, therefore, their tax brackets generally decreased, but they didn't sell the bonds. Laziness and losses provide the explanation. A typical reply: "I'd get back less than I paid, so I'm going to wait for them to mature instead."

It isn't retirees who are buying the bonds now; it's upwardly mobile individuals and couples in their 30s and 40s who are *hoping* to be in a higher tax bracket, and soon, but aren't there yet. The newcomers recently received quite a surprise. Municipal bonds are down substantially from their highs, and many of the new investors find themselves saddled with losses. The upbeat television advertisements hadn't prepared them for the possibility that things might not go well.

So, justifiably or not, they were distressed. Some are now complaining that they managed to buy at what may turn out to be the peak of the bond market for this year, that is to say, the bottom of the interest rate range.

Ironically, and this is a fascinat-

ing point, it was precisely the rapid decline in the general level of interest rates that set the stage for these buyers to take the plunge into municipals. Why? Because as long as they were getting 15% to 17% on their money as a taxable yield, they were willing to stay with corporates, CDs and money funds. With rates that high, they could afford to pay the full amount of any taxes that were due and still be left with an aftertax yield of 7% to 12%. Once interest rates fell to the point where, at best, investors might be left with a net aftertax yield of 4½% to 5%, they figured they might as well accept 5% tax-free.

Only it didn't work out that way. What they now have is, approximately, a 6% to 15% loss of principal, and those holding bonds with intermediate maturities will have to wait an average of a little over seven years to be certain of salvaging their capital intact.

How is the brokerage fraternity reacting? By pouring more money into commercials to lure yet more investors into tax-exempts. According to spokesmen at the major retail municipal bond brokers, spending on radio and TV advertising aimed at the individual investor is scheduled not only to remain at this unprecedentedly high level, but, in some cases, to increase. "The response in terms of sales generated was even better than we imagined," one commented. "We think there are still plenty of people who could end up becoming customers."

Think twice before becoming one of them. Many of the investors in my sample who are buying these bonds should not be. The arithmetic simply makes no sense. If you are in a 30% marginal bracket, you can do almost as well—even after taxes—in Treasury securities, with less risk and with considerably greater liquidity, in case you need to sell. And if you are in a higher bracket, where the tax-exemption feature does make sense for you, consider a tax-exempt money market fund. There you get the desired exemption from federal income taxes without the market risk that comes from buying bonds themselves. But above all, don't let your resentment at paying taxes trap you into investments that, in the larger scheme of things, just don't add up. ■

Dr. Srully Blotnick is a research psychologist and author of Getting Rich Your Own Way and Winning: The Psychology of Successful Investing.

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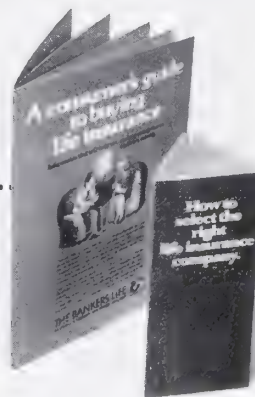
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Taking a profit out of the OJ market can be hard, but this trade might do the trick.

A DIFFERENT KIND OF BREAKFAST SPREAD

By Stanley W. Angrist



Most commodity traders rarely, if ever, think of trading frozen concentrated orange juice (FCOJ). The one exception to that statement is when there is the threat of a hard freeze occurring in Florida's orange-growing region in December or January. Then everyone wants to buy. As a rule it is too late or impossible to get in at that point. Think about trading OJ while you are still sitting at the beach or pool.

The 1982-83 orange harvest is coming to a close, and Florida processors are likely to pack as much as 175 million gallons of juice, up from 133.3 million gallons in the 1982-83 crop year—an incredible 31% increase. This production level is the first increase in three years, and is chiefly because of the frost-free winter in 1983. Severe freezes in 1981 and 1982 cut total production by 25% and 24%, respectively, forcing processors to import Brazilian juice to satisfy U.S. demand.

The domestic pack this year should satisfy more than 80% of expected demand, reducing the need for Brazilian juice. So far, foreign imports are down almost 50% from the year-ago level of 70 million gallons. The USDA recently noted that Brazil is now going to concentrate its export efforts on the Middle

East and Western Europe in an effort to reduce its inventories and its dependence on the U.S. market, which should also help its disastrous international debt problems.

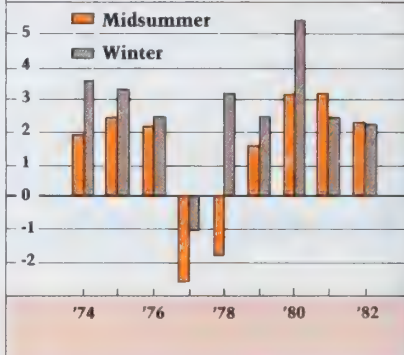
A supply/demand table is shown here for the current year, ending Nov. 30, 1983, and for the preceding four years. The outlook for substantially increased supplies is juxtaposed against a questionable demand picture. Without considerable usage expansion over the next three months, total movement of FCOJ into wholesale and retail channels will register its third consecutive annual decline. Some analysts believe that declines in unemployment and the July 1 tax cut will spur demand a bit. As of mid-July, demand, as measured by movement of product out of Florida, is down about 1%, compared with last year.

Barring a midwinter freeze, the fundamentals of increased supplies

Vitamin C special

In mid-summer of most years the May contract of frozen orange juice carries a premium to the January. Historically, that premium has gotten bigger as winter nears. In 14 of the last 16 years it has widened enough to generate a profit for traders. The bar on the left is the premium (or discount) of May to January in midsummer and the bar on the right is for mid-December.

Price difference (cents)



and moderate demand tell me that FCOJ's price is not going to run away. A spread with a high degree of reliability (see chart) involves buying May/selling January. Try to do the spread with January at least at an 80-point premium. The margin on this spread is \$500; the round-turn commission about \$75. ■

Balanced breakfast

The figures below (in millions of gallons) track increasing supplies and falling demand for frozen concentrated orange juice. Note that production dropped sharply in the crop years ended in 1981 and 1982 because of severe midwinter freezes. The orange juice crop year begins Dec. 1.

	Supply				
	1978-79	1979-80	1980-81	1981-82	1982-83*
Beginning stocks	30.9	37.4	57.3	69.0	53.6
Production (net)	173.1	231.3	174.5	133.3	171.5-175.1
Imports	28.7	16.5	56.9	70.3	35.0-45.0
Other	14.6	8.6	18.2	11.3	8.5
Total	247.3	293.8	306.9	283.9	268.6-282.2
	Demand				
	1978-79	1979-80	1980-81	1981-82	1982-83*
Movement	200.7	232.8	228.5	223.0	205.0-215.0
Futures delivery	9.2	6.2	12.1	7.4	5.4
Total	209.9	239.0	240.6	230.4	210.4-220.4
Ending stocks†	37.4	54.8	66.3	53.6	58.2-61.8

†Subject to year-to-year revision.

Sources: Data—Florida Citrus Processors Association. *Estimates—Shearson American Express.

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

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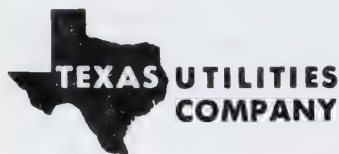
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Venture Capital

The venture capital industry has been enjoying new success that has brought entrepreneurs a bigger piece of the rock.

BUSINESS AS USUAL NO MORE

By Thomas P. Murphy



Contrary to growing opinion among venture capitalists, the world did not begin in August 1982. To clarify things, what did begin was the Great Bull Market. High-technology, high-growth companies, the kinds venture capitalists deal in, were the cutting edge of that market. To quantify this, the Dow grew by about 45% from August to August. Hambrecht & Quist's Technology Stock Index grew 82%. It was some kind of year for venture capitalists, all right. But where does that leave them now?

Wealthier, of course, but not as flush as those stock-price increases imply. They are mostly paper profits on stocks that can't be sold rapidly because of legal restrictions or because the market for them is thin. Still, a lot of real money has been made, and if that were all there was to it, we could dismiss the past 12 months as a marvelous fluke and go back to business as usual.

For better or worse, however, I don't think we are ever going back to business as usual in venture capital. Success does things to people and to industries. Neither is the same after it comes. Sixty or so new partnerships joined the venture industry last year, and another \$1.8 billion was pumped into the system. More important, the fancy

pricing that began in the stock market has now backed its way through the whole venture capital industry. Everybody now wants more.

Management teams want a bigger share of their companies from the venture capitalist. Middle-rung employees in Silicon Valley companies find that Friday night beer busts no longer take care of their morale problems; they want stock or stock options, and never mind the Michelin lob. The venture capitalists, for their part, would like a bigger share of the profits.

The result is that the way things are divided up in the venture capital world has changed radically. Maybe too radically.

A decade ago an entrepreneur wholly financed with a venture capitalist's money might expect to keep 20% to 25% of the ownership of the business for himself and his managers. Entrepreneurs resented giving up that much of "their" company, and there were always asides about "vulture capitalists." On the other hand—from the venture capitalist's viewpoint—with 25% going to the entrepreneur, million-dollar financing really meant that the venture capitalist had just handed an almost total stranger a quarter of a million dollars. That, after all, was the value of the entrepreneur's share of the company as soon as it was financed. Often the entrepreneur's financial risk was nothing.

Fair or not, the numbers have changed, and a more common split today is probably closer to 50% for the entrepreneurial team and the other half for the investors. However, it does vary by region. In Silicon Valley, where competition among venture capitalists is keen, an entrepreneur with the right deal can get as much as 60% of the equity. O

Thomas P. Murphy heads a venture capital firm, Partnership Dankist, Stamford, Conn.

the East Coast 40% is more the rule. Even those arrangements unravel if public investors get involved in the process too early. When that happens, a reasonable sharing of risk/reward among the various interested parties—management, venture capitalists, public stock purchasers, etc.—can drift from reality.

At the extreme, as FORBES demonstrated (*Statistical Spotlight*, Aug.), the public market reception for biotechnology stocks was so enthusiastic that the pricing of those issues left earthly constraint. On average, the public put up 65% of the money for the companies and ended up owning 24% of the stock. That kind of step-up is not unreasonable in itself. So called step-ups in valuation are commonplace as companies move from their high-risk, startup phase through the process to maturity. It is unreasonable when there never was any real private risk money involved.

Where will it all end? My guess is that it already has—at least for the time being. The old bull market seems tired and indecisive. With more venture capital firms pouring much more money in the industry, the entrepreneur with an attractive deal now has the bargaining power on his side. And he knows how to use that power. Ironically, the one party in the whole spectrum who should have managed to take better care of himself apparently failed.

When Kleiner Perkins, a respectable and highly successful San Francisco venture firm, raised a new fund earlier this year, it asked for a 30% share of the profits instead of the traditional 20%. Furthermore, its new fund was huge—\$50 million—and, nevertheless, oversubscribed. It looked to many as if venture capital as though there would be another dollop of money sitting on the cake.

But it has not turned out that way. The money managers rallied. The bank, a major investor in venture partnerships, simply said, "Don't bother to come in if you are going for a 30/70 profit split in your fund." Selling new venture funds with a carried interest much beyond 20% became sticky. Most venture capitalists decided they would live with 20%. ■



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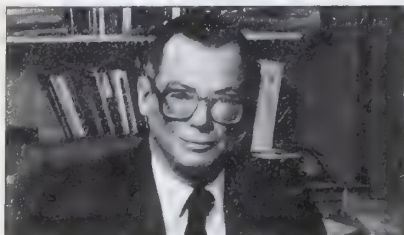
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When the Fed uncorked the bottle last fall, the booze tasted awfully good. But there is always the morning after.

ONE MORE FOR THE ROAD

By Ashby Bladen



Last year the fact that interest rates remained at record levels long after factory sales had slumped forced manufacturers to slash their investment in inventories. This year inventories are continuing to shrink, but for a very different reason. Now manufacturers are selling their wares considerably faster than they are producing them.

The huge increase in orders for manufactured goods received during June, coupled with the continuing decline of inventories, makes it clear that a major restocking boom is developing. That is about the best economic news we could hope for, but I have been telling you all along that economic recovery would send interest rates soaring to levels that would make most stocks look thoroughly unattractive by comparison.

So ever since last October, when the Dow was about 1000, I have been suggesting that prudence dictated sitting out the rest of the rally on the sidelines. It turned out to be quite a rally, indeed, but I make no apologies. A missed opportunity bruises the ego, but a real loss inflicts pain on the pocketbook.

Go back to the late 1920s, after the collapse of the overleveraged Florida land boom at the end of 1926

had shown that the main force driving up equity values was an excessive rate of debt formation. People who got out at that time missed the fun of the greatest bull market in history, but the people who lost everything in the subsequent crash would not have considered that lost fun too high a price to pay for financial survival.

The reality that the bulls ignored in 1929 and again in 1983 is that both times our financial system had become entrapped in the steadily escalating consequences of an excessive and prolonged credit expansion. Those consequences are complicated and, in some respects, contradictory. The best way to give you an overall feeling for them is through an alcoholic metaphor.

Borrowing, like booze, makes the partakers feel good in the short run, but not so good in the long run. The unpleasant feelings show up only when you stop imbibing, so it is tempting to conclude that the remedy is not drinking less the night before but downing a dram of the hair-of-the-dog the morning after.

As long as we stick with that approach, inflation and interest rates will tend to climb precipitously during business expansions. And during contractions, unemployment and bankruptcies will soar until we down that restorative nip.

Now that the federal government has become the biggest boozier of all, the Federal Reserve is stuck with the thankless task of keeping the party from getting out of hand by periodically taking the bottle away from the rest of us. It has taken the bottle away four times since 1965, but most of our doctors of economics now tell us that the cure is worse than the disease. So the Fed always puts the bottle back on the table when the economy gets the shakes.

The financial hair-of-the-dog approach has always been as popular with debtors as the alcoholic one is with drinkers, but it did not become universally accepted policy until it was given intellectual respectability by the Keynesian economists. They argue that people persistently try to save more out of the incomes they have earned producing useful goods and services than the business community wants to borrow and invest in the tools that make those productive efforts more efficient. That shortfall causes production and incomes to decline and unemployment to rise, until people can no longer afford to save more than businesses wish to invest.

The Keynesian way to avoid the shortfall is to discourage saving and encourage borrowing and spending. You do that by keeping interest rates low and running a modest inflation that reduces the real cost of repaying loans, at the expense of the savers who were stupid enough to provide them. Keynes himself called this policy "the euthanasia of the rentier," and by now most of the world's savers have been mercifully put to death. Which leaves us with the problem of how we can go on financing the productive real investments that raise the standard of living in the absence of voluntary savings.

There are two possible ways of doing that. The government can go on borrowing to finance investment, despite the fact that nobody is saving anymore. That way the real resources are sweated out of the people by an inflationary decline in the real value of their incomes. Most developing countries have done it that way for one-third of a century or more.

Or the country can borrow from abroad the savings that its own people no longer provide. Most developing countries have done that, too. The U.S. is also borrowing heavily abroad to finance our current standard of living.

Unless we want to see long-term savings to finance economic progress disappear here, as they already have in most of the rest of the world, we will have to sober up sometime. And until we do, the fundamental direction of interest rates will remain up, as it has been for more than 30 years. ■

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Developing Financial Crisis.

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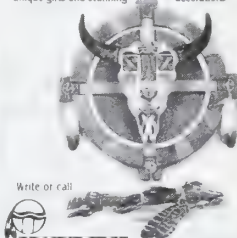
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Do you know anybody
who is somebody in business
who does not read
Forbes Magazine?

Forbes:
Capitalist Tool

"The more things change. . ."
Items from past issues of FORBES

Sixty years ago in FORBES

(from the issue of September 15, 1923)

So vast an area of Japan has been devastated by the greatest earthquake in the history of the country that the actual loss of life and property will not be known for some time. At least five big cities have been almost wiped out, and it is estimated that at least 100,000 people perished. The amount needed for rehabilitation is figured at \$5 billion. It is not unlikely that a large reconstruction loan will be floated in this country."

Troubles, it is said, never come singly. Earthquakes haven't been confined to Japan. The business structure has been subjected to several shocks of earthquake seriousness. Mussolini did his best—or worst—to throw Europe into war by his precipitate seizure of Greek possessions. The German mark collapsed to more than 16 billion for \$1, bringing Germany to the brink of social and economic disaster. The Japanese calamity was infinitely more disastrous than anything of its kind in modern times. Demoralization gripped our very important oil industry. The negotiations between coal mine owners and workers led only to a strike. . . .

"How did the financial community, the security markets and the business world act under such provocation to come panicky? Each stood up most impressively."

For ages the libel has been current that the women of Chicago had the biggest feet of any females in the republic. The shoes they wore were termed 'gunboats.' . . .

"Now comes the official report of the National Association of Chiropodists showing that Chicago women have been grossly libeled. Instead of having big feet, they have tootsies as small as those of any other women of America and smaller than most of them. St. Paul women rank highest in generous unpinning, while the men of Philadelphia and St. Louis are tied in the questionable honor of big feet."

Fifty years ago

(September 12, 1933)

What rejoicing in a community when it is announced that the government has agreed to lend or spend mil-



"California's version of the usually ramshackle tourist camp is the 'motor court' "

lions on the construction of some local project! The newspapers proclaim in large type how many men will be given work for such-and-such a period. It is the furnishing of employment which usually is hailed as the greatest desideratum. . . .

"Does it ever occur to us to feel grateful, even in these days, to organizations that employ many thousands of men, paying them, not from tax money we ourselves contribute, but out of their own treasuries? If we so loudly applaud the government for creating work at our own expense, should we not applaud still more enthusiastically and gratefully private enterprises that furnish far more employment?"

—B.C. Forbes

"The past summer has seen the pretesting of products, to save money which might otherwise be wasted in promoting unsalable articles, enter a new field—the theater. For several years' summer theaters have been flourishing in small towns. Until the summer of 1932, the primary object of the summer theaters was to make



In Sept. 1933 FORBES took a nostalgic look back at the first high-production U.S. car, this one-cylinder curved-dash Olds, of which 4,000 were sold in 1900

money for their operators. . . .

"In 1932, however, several new plays were introduced to summer audiences, seven of which made their appearance on Broadway the following winter. During the summer just ended, the presentation of new plays has taken hold with a bang, with 141 making their debut. The object of each tryout was the same: to test the audience's reaction, to give the director a visual picture of the play, and thus to prevent large expenditures in the Broadway production of a play which might turn out to be a 'flop.' "

Twenty-five years ago

(September 15, 1958)

"For many years now the editors of FORBES magazine have taken a deep interest in the difficult struggle being waged by the six New England states to keep from being left behind in the economic race. In general, we have found that the Yankees were making gradual but determined progress. Electronics and other technologically advanced industries have been nursed along to replace the vanishing textile mills. New skills have developed as the demand for spinners, weavers and the like have declined. If New England has not quite kept up with most of the rest of the nation, it has utterly confounded the prophecies of the doom-criers who predicted that that hardy region was heading for economic senility."

—Malcolm S. Forbes

"Credit card organizations, which have mushroomed in the past few years, are now getting some stiff competition. Smoldering over the 5% to 7% cut demanded by the credit-carders, the big Hilton and Sheraton Corp. hotel chains are considering setting up their own systems."

The time may come when an evil man or one who has no clear sense of values simply cannot be an effective administrator.
STANLEY F. TEELE

An idealist is a person who helps other people to be prosperous.
HENRY FORD

In the U.S., doing good has come to be, like patriotism, a favorite device of persons with something to sell.
H.L. MENCKEN

The by-product is sometimes more valuable than the product.
HAVELOCK ELLIS

We can have democracy in this country or we can have great wealth concentrated in the hands of a few, but we can't have both.
LOUIS D. BRANDEIS

There is always plenty of capital for those who can create practical plans for using it.
NAPOLEON HILL

All history has been a history of class struggles between dominated and dominating classes at various stages of social development.
FRIEDRICH ENGELS

You must offer a benefit to assure cooperation. This applies to marketing, advertising, employee and employer relations and your everyday dealings with people.
ROBERT HALF

Feed the musician, and he's out of tune.
GEORGE CRABBE

Thoughts on the Business of Life

I once asked one of America's foremost financiers what he considered the acme of business success. His reply came promptly: "To establish and place on a sound, permanent basis a business affording employment to a large number of fellow beings at wages enabling them to live in comfort and happiness."
B.C. FORBES

I want there to be no peasant in my kingdom so poor that he is unable to have a chicken in his pot every Sunday.
HENRY IV

Civilization is a method of living, an attitude of equal respect for all men.
JANE ADDAMS

A really great man is known by three signs: generosity in the design, humanity in the execution, moderation in success.
OTTO VON BISMARCK

They say that it's hard for men to agree. You'd be surprised how easy it is—when both parties hold as their moral absolute that neither exists for the sake of the other and that reason is their only means of trade.
AYN RAND

More than 3,000 "Thoughts," indexed by author and subject, are available in a 574-page book at \$13.95. Send check and order to: Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Add appropriate sales tax on New York State orders.

The really difficult moral issues arise, not from a confrontation of good and evil, but from a collision between two goods.
IRVING KRISTOL

Success comes not from doing what you want to do, or what you like to do. Success comes from doing what you have to do.
FRANK TYGER

Economics is only partly an economic problem. It also is a question of fair treatment, power and values. Who suffers, who gains? Who pays, who benefits?
ARTHUR DOBRIN

Grant graciously what you dare not refuse.
GEORGE GALLUP

A Text . . .

Walk in wisdom toward them that are without, redeeming the time.
COLOSSIANS 4:5

Sent in by Eleanor Barber, Forest Hills, N.Y.
What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

If a free society cannot help the many who are poor, it cannot save the few who are rich.
JOHN F. KENNEDY

True human progress, that which can be linked to evolution, and which prolongs it, can only consist in perfecting and ameliorating man himself and not in improving the tools he employs, nor in increasing his physical well-being.
LECOMTE DU NOÛY

VIEWS OF NORTHERN IRELAND RARELY SEEN IN THE MEDIA



Hughes Tool Company, Castlereagh, Co. Down.

**“Last year
98% of our
shipments
were
delivered
on, or
ahead of,
schedule...”**

Noel Irwin, Plant Manager,
Hughes Tool Company.



Mourne Mountains, Co. Down.

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Northern Ireland

Judge us on the facts



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Grand Marnier.

Forbes

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TRAJECTORY OF BALL:

Downward angle = 75°
 Ball speed = 90-95 mph
 Rotational speed = 0-20 mph



TRAJECTORY OF BAT:

Upward angle = 15°
 Bat speed = 62 mph
 Torque = (unmeasured)

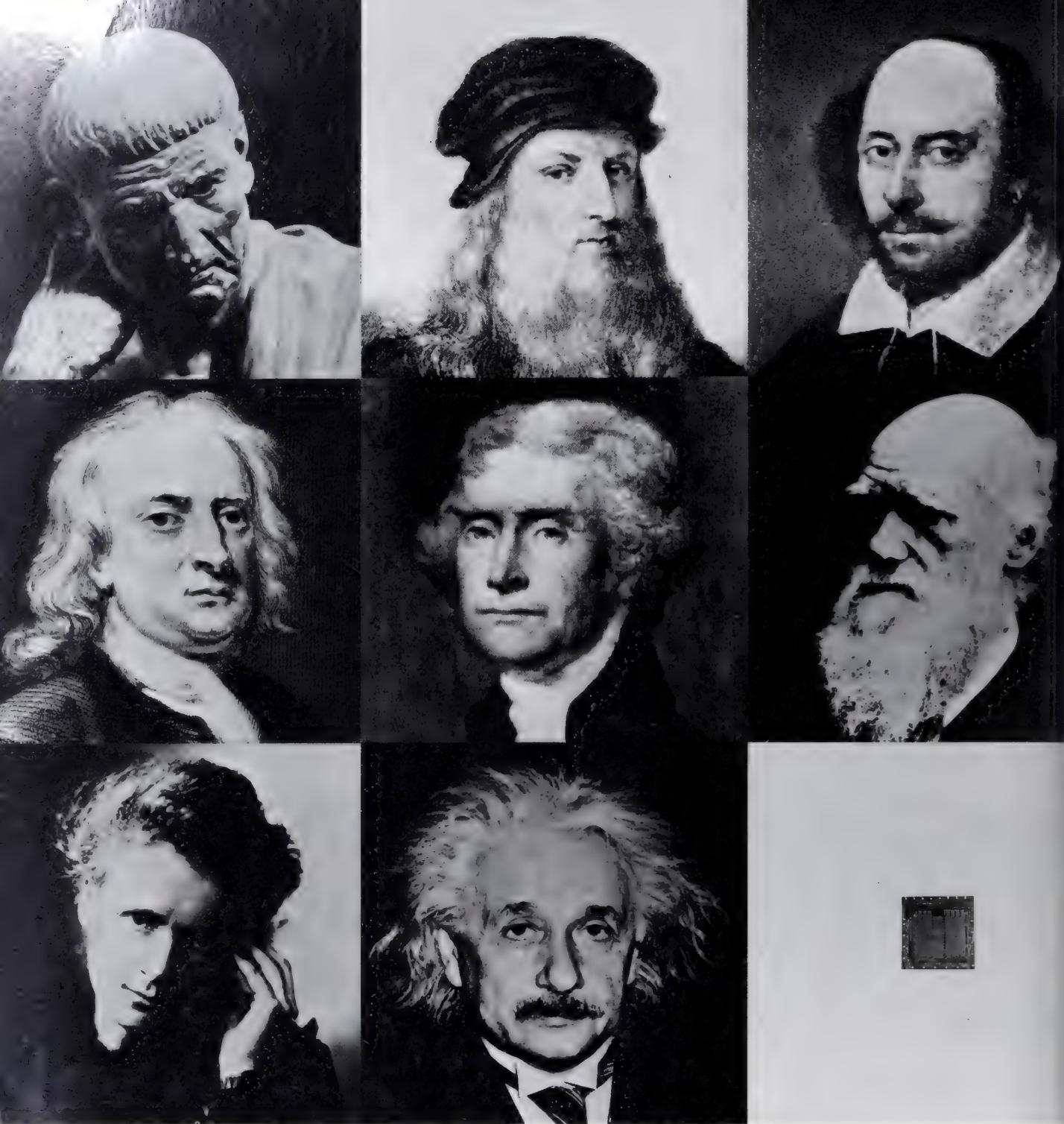
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Of all the world's great thinkers, which is the greatest?

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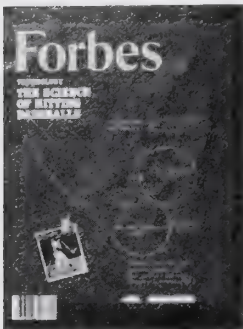
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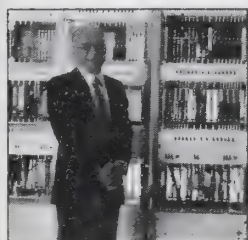
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Illustrations:

19, Laszlo Kubinyi; 31, 192, Phil Huling; 33, 59, 62, 102, 106, Chas. B. Slackman; 42, Courtesy of National Portrait Gallery, London; 124, Peter Kuper; 130, Glenn Dodds; 134, Gary Hallgren

Cover Illustration: Andrew Christie

Forbes (ISSN 0015-6914) is published biweekly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription \$36 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011. Copyright © 1983 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

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Theory versus practice

News, one adage has it, is what hasn't happened before or what you hadn't known about before. Our story on the investment genius of John Maynard Keynes in this issue (p. 42) falls into the latter category. It has its origin in our cover story earlier this year on Joseph Alois Schumpeter (May 23). There we strongly suggested—"made the case" seems immodest—that the Austrian had the profounder sense of where the world was going. But if that is so, Editor James Michaels asked Laury Minard, then our European Bureau Manager, why did Keynes, not Schumpeter, die a self-made wealthy man? How explain the paradox between theoretical and practical greatness in economic matters? Minard would not let the question lie.

The standard work on Keynes, Sir Roy Harrod's *Life of John Maynard Keynes*, is almost silent on the moneymaking talents of its subject. Minard found the *Essays on John Maynard Keynes*, edited by Keynes' nephew Milo Keynes, far more enlightening. This collection includes a brief memoir, "Keynes in the City," by the late Nicholas Davenport, who in the 1930s was a director of a London insurance company of which Keynes was chairman. In investment matters, Davenport showed Keynes to be a man of interesting convictions, fiercely held and heretical at the time (many still are).

A more important break came a few days later. Rummaging through the new-books shelves in London's The Economist Bookshop, Minard stumbled on Volume XII of *The Collected Writings of John Maynard Keynes*. This was a work devoted to Keynes' sometimes blunt, always commonsensical correspondence with his City associates. Example: "It is safer [Keynes wrote in 1938] to be a speculator than an investor in the sense of the definition which I once gave . . . that a speculator is one who runs risks of which he is aware and an investor is one who runs risks of which he is unaware."

One look at that and other passages, Minard recalls saying to himself, "and the story would obviously write itself." Not quite, but we think you will find Minard's effort unusually rewarding.

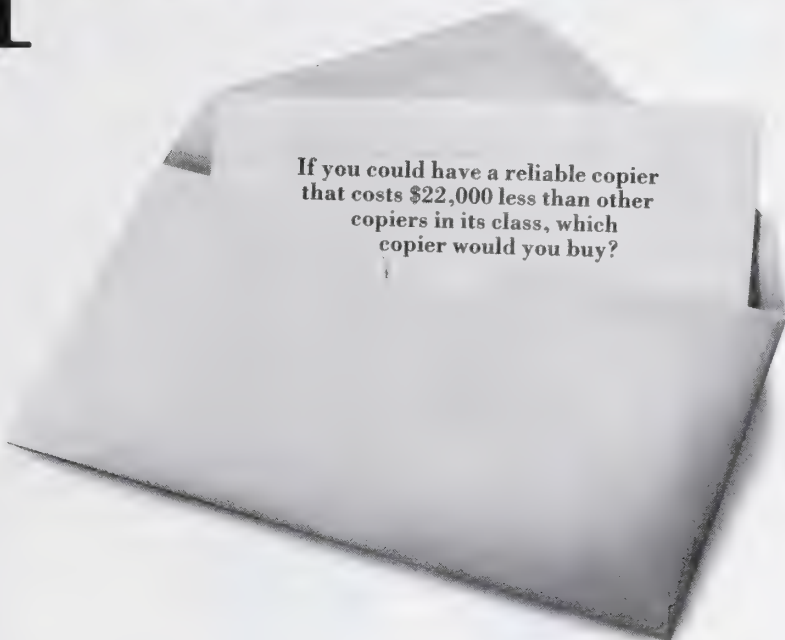
Play ball

We are bracing for a torrent of letters, not all of them heaping praise, on our cover story, "The science of hitting a baseball," by Senior Editor Stephen Kindel (p. 180). Some, we suppose, will be from those who will insist that we have ignored the real heroes of the game, the pitchers. It is good pitching that produces pennants, we will be told. We wish to state here that we agree, although major league owners don't seem to. Starting pitchers, our research reveals, are the women of baseball—hugely discriminated against despite their endless toil, paid only 59 cents for every dollar the average fielder is paid. We write about hitting, nevertheless, because at least something can be said about it. Pitching is beyond analysis. Once upon a time there was a young and wonderfully gifted left-hander in Cleveland, Herb Score, who said it all: "Only God can give you the fastball."

Sheldon Zalaznick

Managing Editor

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*Comparison based on manufacturers' prices as of 5/26/83 for plain-paper copiers with reduction, automatic document feed, collator and a rated speed of 70 copies per minute.

Outfitting the Olympians

Members of the U.S. Senate took time off from affairs of state last month to vote their preferences for official parade outfits to adorn the U.S. team at the 1984 Los Angeles Olympics. Levi Strauss & Co., the team's official haberdasher, offered the solons three ensembles: red blazer and white skirt or trousers (the "classic" style); blue denim jacket with white jeans or skirt, red scarf, cowboy hat and boots ("western"); or red, white and blue warm-up suit with sneakers ("active"). The 64 senators who answered showed the Republicans largely conservative: 26 of the 39 polled, including Howard Baker of Tennessee and Ted Stevens of Alaska, voted "classic." A group of western Republicans, on the other hand, including Paul Laxalt of Nevada and John Tower of Texas, preferred "western." The Democrats, as usual, disagreed: 13 voted "classic," 9 "active," and 3 "western."

Those \$1,000 widgets

Here is the other side to those stories about defense contractors gouging the U.S. with \$1,000-a-screw charges for individual spare parts. The fact is, says Lockheed President Larry Kitchen, if the Pentagon wants a single anything, the sheer logistics dictate that it has to cost a ton. The military pays for reasonable extras like set-up time and inspection, along with less obviously reasonable charges like overhead and previous research and development. So an insignificant item like a plastic antiskid cap for a navigator's chair leg on an AWACS plane can run into real money. Kitchen tells his people to block any tiny order that would result in astronomical prices, even if legal. If the Pentagon insists on a single widget, Kitchen says, then Lockheed will tell them—in writing—that the part will be "policy-priced" using "sound business judgment." To underscore the point, the president of every Lockheed subsidiary has been told explicitly to review such orders personally.

The urge to merge

No fewer than ten financial institutions were listed last year among the 25 most merger-minded companies (those that bought five or more firms), according to the 1982 edition of *Mergerstat Review*, published yearly by W.T. Grimm & Co., the Chicago-

based merger and acquisition experts. "The appearance of financial institutions among the list of top acquirers reflects in part the fierce competition in the financial industry," says Chairman Willard T. Grimm. He reports that transactions in the banking and finance industry were up 27% last year. Eight of the ten financial institutions on the list appeared for the first time. It was headed by California Federal Savings & Loan Association with ten acquisitions. Other acquisition-minded companies, financial and otherwise: Metromedia, Inc. (nine), American Hospital Supply, Merrill Lynch and Security Pacific Co. (eight each), and American Express and Beatrice Foods (seven each). The financial institutions acquired savings and loans, brokerage services, real estate agencies, banks and insurance companies. "The weak state of the banking and thrift industries, together with the ongoing drive to establish one-stop financial supermarkets, should give continued impetus to these acquisitions," says Grimm. But the overall pace has slowed. The top 25 acquirers in 1982 bought only 153 companies, compared with 37 firms that purchased 267 in 1981.

GOP sunshine

Ronald Reagan will bask in the balmy economic climate of any President seeking reelection since Lyndon Johnson wiped out Barry Goldwater in 1964, according to a consensus of business economists. Recovery will continue in a "remarkably serene way on through 1984," says Edgar Fiedler, head of the National Association of Business Economists. A consensus of 250 of his peers sees "an absence of

trouble out there in the future. . . . No outbreak of inflation, no upsurge in interest rates and no new recession." Fiedler's brethren see next year's inflation rate at 5.1%, GNP growing at 4.6% and a prime rate next June (the limit of their foresight) of 10.9%. To be sure, the clouds are out there—without "major budgetary surgery," say the economists, those \$200 billion federal deficits could produce a prime close to the 20% of 1979—but not until after next year's elections. Pointing out that the economists were basing their predictions on the statistics as well as a reading of how the voting public would feel about the economy, Fiedler said, "We appear to be entering an interlude of cyclical tranquility." All this economic sunshine could mean stormy weather for the Democrats, and they know it. "It has been clear to us for some time that the election of 1984 will not take place in the same economic climate as in 1982," says Ann Lewis, political director of the Democratic National Committee.

The CPA network

What McDonald's is to hamburgers, Steven Kriegsman and Dean Ader want to be to accounting. Beginning this fall the two Los Angeles CPAs—Kriegsman, 41, is a former Peat, Marwick, Mitchell auditor and Ader, 31, once worked for Seidman & Seidman—plan to start selling franchises in their new Accountants Network of America in six western states. For \$7,000 to \$12,000, the hopefuls will get the right to the network's name, plus various manuals, discounted computer software, training, etc., all to be backed by an ad campaign from the parent. Separate affiliates of The Accounting Network will handle chores like buying securities and consulting. Kriegsman, Ader and their partners also plan to issue stock and are now in registration with the Securities & Exchange Commission, but they will control 53% of the parent firm.

Oui, mais . . .

What has François Mitterrand and his Socialist government done to U.S. corporate subsidiaries operating in France? Bossard Consultants, a major French management firm (which also operates in the U.S. and Western Europe), polled 86 companies with French operations and found—with



President Reagan

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Trends

one major reservation—that they were enjoying or at least enduring the new climate. The companies, ranging in size from \$200 million to well above \$500 million, reported that sales were holding up, and those that had suffered decreases blamed them on economic conditions, not Mitterrand. Man-hours lost through strikes had not increased and were comparable to those in the rest of Europe. Nor had Mitterrand's shorter work week produced any real pain. (Only a half-dozen firms said they had altered operations to compensate for the shorter hours.) Most respondents also said that the new rules governing minimum wages and severance pay had meant no special impact on labor costs. But la belle France has lost its charm. None of the companies in the Bossard survey had pulled out—but none was interested in getting in any deeper. Only three of the American companies made any new investments in France since 1981, and those were planned before that year.

The Book of Job

How-to-succeed books come by the shelfload, so here is one on how to fail. John Wiley & Sons is bringing out *Tax Planning for the Troubled Business*, a guide to decision-making for companies facing bankruptcy. The authors are Dr. Grant Newton, a CPA and professor of accounting at California State University in Los Angeles, and Gilbert Bloom, a tax partner in the Peat Marwick, Mitchell & Co. office in Washington, D.C.

The options craze

Responding to clamor from their floor traders for more salable products, stock exchanges have been furiously concocting more and more options—on bonds, on foreign currencies, on market indexes, on groups of computer manufacturers and clusters of oil companies. At last count at least 400 individual equities are now carrying some sort of buyable option. But the flurry of new narrow-based group indexes is causing some Wall Streeters to cry for relief. Robert Linton, chairman of Drexel Burnham Lambert and also current head of the Securities Industry Association, wants a moratorium on new options and futures, a breathing space to allow The Street's securities salesmen to learn more about what they are selling. So far, he has been wasting his breath. An ap-

peal to the Securities & Exchange Commission brought the response that the marketplace should decide what should be sold. Letters to the stock exchanges were equally ignored, according to Drexel Burnham Executive Vice President Howard Brenner, who doubles as head of the SIA's options committee. Options, from all indications, will continue to increase and multiply.

Arts and crafts

With stars like dancer-director Mikhail Baryshnikov, the American Ballet Theater has talent to burn. Money is another story. By 1984, the ABT found, it would need \$15 million a year and could expect only \$9.2 million from the box office. Traditional backers like foundations, government and corporations could not be counted on to fill the gap. Worse, it expected cuts from a prime source, the National Endowment for the Arts. So the ABT decided to start selling more



Mikhail Baryshnikov
Making ends meet.

than ballet tickets. One innovation was broadcasting and a tape of the company's *Don Quixote* is already on the market. Then the ABT called in Hamilton Projects, a New York licensing specialist that handles tie-ins

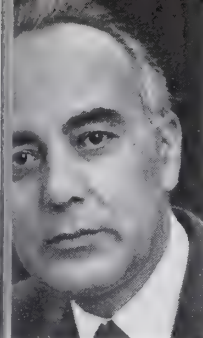
for clients like Milan's La Scala opera, Coca-Cola, American Express and Wendy's. ABT's first project was a set of Boehm china dance figurines that brought in over \$100,000 in royalties the first year. The dance company then agreed, says Rhoda Grauer, its director of TV and licensing, to lend its name to a line of dance clothing. By early 1984 the American Theatrical Licensing Group, formed last year, will have ABT tights, leotards, rehearsal suits, etc. in 150 stores, and ready-to-wear is next. The ABT also hopes to license towels, sheets, crystal, glassware, books and toys, and take in at least \$1 million over the next three years.

A new engineer shortage

Blue collars may be out of style, but blueprinters are in demand. A survey by the American Electronics Association of 815 electronics companies, with combined sales of \$56 billion, indicates a shortage of 113,500 electrical and computer science engineers over the next five years. Over 197,660 new posts will open up before 1987, says the AEA, but only 84,256 bachelor-level electrical engineers and computer science engineers are expected to graduate. Growth in technical jobs is expected to be highest in California (90%) and in the nine southeastern states (82%). To close the gap, the AEA is raising funds for education, asking companies to devote part of their research and development budgets to education, and is lobbying for government support.

The SEC's lost-and-found

Washington's securities watchdogs want a pat for the growing success of their six-year-old program to track lost, strayed or stolen stock certificates. Last year the dollar value of paper located through this Securities & Exchange Commission program went from \$15 million to close to \$21 million, a 37% increase. The total for all certificates reported last year as lost, missing, stolen or counterfeit was \$1.4 billion. The Securities Information Center's database, in Wellesley Hills, Mass., now has information on securities with a market value of \$5.5 billion. (The bank includes most publicly held issues.) When the SIC does score a "hit"—a security that has gone astray or been faked—the data bank gives the inquirer the name, address and phone number of the institution reporting the loss and, in criminal cases, passes the word to the FBI.



Address given by Dr. Hans Friderichs, Chairman of the Board of Managing Directors, at the Annual Shareholders' Meeting of Dresdner Bank AG



operating profit rose by nearly 85 per cent in 1982. If, in addition to the good operating profit, loan provisions and extraordinary charges are taken into consideration, then profit before taxes amounted to DM 335 million.

The Board of Managing Directors and the Supervisory Board have decided to allocate DM 60 million of total assets to the free reserves, thus increasing the total worth of the Bank to DM 3,365 million.

The Bank's total assets rose by 5 per cent to DM 83.6 billion.

Dresdner Bank's subsidiaries performed as successfully as the parent company. The Group's total business volume increased by 6 per cent to DM 180 billion; members of the Group showed increased operating profit.

In 1982, the banks provided business worldwide financial assistance in its export drive. Thus, it was possible for industry to gain a foothold in new markets and its own, often in the face of stiff international competition. Without this cooperation between industry, exporters, and financial institutions many of the successes achieved in international trade would not have been possible.

Many much approve of the establishment of the London-based Institute of International Finance, which will provide support by developing additional sources of information for international lending. The impetus for the founding of the Institute – which is presently being organized – came from a number of internationally active banks including Dresdner Bank.

The degree to which the recent improvement in the business climate will prove to be lasting is a matter of great concern to us all. We are watching to see whether a self-generating recovery is on the horizon.

At this point, there is no guaranty that there will be a sustained recovery. The information available to us

indicates that the outlook varies greatly from industry to industry. We cannot count on a strong growth in exports. We will only benefit marginally from the improved business climate in the United States; in other industrialized countries momentum is still lacking. And the potential export markets in the Third World and Eastern Europe could only be activated if adequate means of financing were to be made available.

The key to an international recovery lies in a return of confidence in economic, monetary, domestic, and foreign policies. Such confidence is quite obviously manifested by the recent trend of share prices and by the investors' more positive attitude toward shares in comparison to that in past years. For stock exchange listed corporations, the result is a significantly improved potential for obtaining new capital. This also has a positive impact on the light in which other companies are assessed and their potential for obtaining new capital, and thus has a significant effect on the economy as a whole.

Given this general situation, what then is the outlook for Dresdner Bank during the current year? So far, earnings have once again shown a considerable increase. In line with the positive general trend, especially in the stock market, profits from trading in our own security portfolio have also risen significantly.

However, it would be inappropriate to extrapolate performance for the full year by a simple process of multiplication of the favorable results achieved until now.

All in all, we are confident concerning the earnings potential of Dresdner Bank. Operating profit should at least equal, if not surpass, the high level achieved in 1982. It is obvious that no commitment can be made by the Board of Managing Directors at this point in time concerning the level of the dividend for 1983. However, in light of current projections, the Board's goal of realizing a higher dividend for 1983 appears realistic.

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Follow-Through

Chock full o'money

William Black, the head of Chock Full O'Nuts who died last March at age 80, was a one-man gang. In 60 years behind the counter of his New York fast food chain, he edited advertising copy, dreamed up promotion ideas and jockeyed it into long-term leases on some of the choicest corner locations in New York. But he may have stayed too long: Sales dropped from \$131 million in 1978 to \$116 million last year, and operating profits went from \$10 million to \$3.7 million (FORBES, May 24, 1982).

Black's one-man reign was also threatened. A group led by Jerry Finkelstein, publicist, political operator and publisher of two major law journals, had accumulated 6% of Chock Full's stock, and he wanted to talk about "the stability and adequacy of management." In response, Chock Full retained Lazard Frères and the law firm of Fried, Frank, Harris, Shriver & Jacobson, both veterans at the takeover game.

By summer Finkelstein's investment group had raised its stake in the company to 17.5%. (Others were interested, too; Milton Petrie, chairman of Petrie Stores, bought 4.2% of Chock Full's shares from Lillian Schwarz, Black's first wife, in July.) In January Finkelstein lost his suit to nullify the annual shareholders' election last December, at which his slate of officers lost to management's team. The firm's stock has risen from \$14 in May 1982 to a recent price of \$19.25 and a price earnings ratio of 32.

Meanwhile, the Black family cardiologist, Dr. Leon Pordy, carrying on as chairman and CEO, has leased, subleased, assigned or sold 17 of Chock Full's 19 Manhattan restaurants (two are closed) to the Riese Organization, the real estate and restaurant operators. The contracts run for 3 to 20 years, with options to renew for 5 years on the last. Four of the properties revert to Chock Full if they can be sold for demolition in development assemblages. (Black was a master at hanging on to choice locations in the face of clamoring developers.) Chock Full will take in only \$5 million a year from the Riese deal and net \$1.8 million or so. But Pordy notes that the restaurants had brought in only 15% of revenues in recent years and were only "marginally profitable." Financial Vice President Howard Leitner says they lost \$1 million in 1982, so the company likes the deal.

Even without its nut-and-cheese sandwiches, Chock Full is a going concern. Its "heavenly" coffee (the one even the Rockefellers couldn't top in the old jingle) and its cake business have generated 83% of its sales, and the corporation has about \$10 million in cash and short-term investments. So Finkelstein has kept coming. Last week he picked up another 90,000 shares (all from Petrie) and has options on another 120,000. Black's empire is still up for grabs.

Back at the old stand

Four years ago, when 46-year-old Frank Berger left the presidency of the House of Seagram, the giant distiller's North American arm, he thought about buying a company either in wine and spirits, cosmetics or soda—any industry with similar marketing needs. Two years ago, he took over ailing Hazel Bishop Industries, a cosmetics company that had peaked with sales of \$33 million in the Sixties but sank into the doldrums in the Seventies (FORBES, Aug. 31, 1981). Almost everything in the Bishop retail line



Frank Berger
Spirits again.

then was two for \$1.49 and, Berger told FORBES, "we have to outsell the competition 2-to-1 just to match their dollar volume." Along the way, Berger also picked up Lanolin Plus, a hair- and skin-products company.

"Running around in a private jet was nice," Berger says now of his Seagram days, but he wanted "a piece of the profits—or, rather, all of them." Bishop's mascara has gone up to 99 cents, its eyeshadow to \$1.99, and the former wine and spirits king claims he has boosted sales by 700% since

1981. In some stores, he says, Bishop's unit volume is greater than that of all his competitors combined. But Berger won't talk about dollar volume—or profits, either. Marie Davis, cosmetics analyst at Smith Barney, estimates his annual sales at \$10 million to \$12 million, and one other industry analyst wouldn't be surprised if his profits were very small.

That may be why Berger decided to go back to wines and spirits as an adjunct to Hazel Bishop. Two years ago he started Viceroy Imports Inc., which sells a midpriced French sparkling wine in the U.S. Berger says he sold more than 100,000 cases the first year. Now he hopes to begin importing from Italy and Spain as well. He has also started to push Lanolin Plus. "The way to grow is through a lot of acquisition work," says Berger. "It's a different world coming from a billion-dollar company to the little entrepreneur on the street."

Those Olympic coins

The Olympic coins that were supposed to raise millions for next summer's Games in Los Angeles are giving off a hollow ring. All told, through July, only 1.2 million of them, out of a planned total of 52 million, have been sold. Representative Frank Annunzio (D-Ill.), who fought a one-man rear-guard action to force the Treasury, rather than the private groups the Olympic committees wanted, to market the coins, is up in arms (*Follow-Through*, Nov. 22, 1982). He plans hearings this fall to find out why the coins, which were supposed to net \$600 million for the big show in Los Angeles, are doing so poorly.

The principals in the deal think the original goals were overblown. A Treasury official, for example, says that the idea of \$600 million for the Games was simply not "realistic." Fergus O'Daly, head of the New York ad agency selected by the Treasury to promote the offer, is more blunt. He calls the original goal "pie in the sky." Instead of \$600 million, he says, "We hope to make a couple hundred million dollars for the two Olympic committees." The 52-million-coin goal, he says, was a manufacturing, not a marketing, objective.

One fierce dissenter is Curtis Prins, staff director of Annunzio's coinage subcommittee. He says of the ad agency, "They're not doing a damned thing," and argues that the ads printed do not reach "the guy at home watching TV who hates the Russians and wants the U.S. to win the Olympics."

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Readers Say

Where asses abound

SIR: Chewing the fat at the local country store, several retired farmer friends were pondering the near-disappearance of draft animals from southern agriculture. Returning home with a sense of loss, I was encouraged by "Doesn't anyone remember?" (FORBES, Aug. 1) to see that asses are alive and well in the new issues market.

—Fred Kissling
Tigerville, S.C.

Cheap, clean energy

SIR: Why put cities into orbit? ("Things The Next 50 Years Won't See—We Hope," *Fact and Comment*, Aug. 15) The answer is simple. People living in these cities could build solar power satellites which would gather solar energy and beam it down to an energy-hungry world. Energy without nuclear wastes, without air pollution, without acid rain, without strip-mining. Just cheap, clean electricity.

Why mine the moon? Another simple answer: gravity. Shipping the materials to build solar power satellites into orbit from the earth is expensive because of the earth's strong gravity. Launching raw materials into orbit from the moon is much cheaper because of the moon's lesser gravity and lack of atmosphere. Perhaps if we mined the moon for the resources to build productive space stations, we might have a chance to "make the earth more livable for more people."

—George P. Campbell
San Diego, Calif.

Views on Mexico

SIR: As a nation for which it has become increasingly routine to view our fragile world from the vantage point of space, we Americans are sorely lacking in our awareness of international affairs. Your cover story on Mexico (Aug. 15) has been a giant step toward enlightening your readers.

—Lawrence Callahan
St. Louis, Mo.

SIR: Your article on Mexico was timely but hardly of the depth I would have expected from FORBES. In the U.S. embarrassment over such things as an adequate water supply, we fail to appreciate that some management, even organization, was requisite in

maintaining that supply. There is nothing comparable in Mexico and what there is is redolent with graft (which you managed to treat so gently in your article).

—J.J. Williams
San Antonio, Tex.

Hot dogs are pure!

SIR: A segment of Other Comments ("Sweet Summer Fare?" July 18) written by Susan S. Lang of *Omni* suggests inaccurately that the ingredients found in hot dogs may include bull or hog scrotum, brains, lips, eyes, snouts, tail meat and stomachs. The U.S. Department of Agriculture has stringent standards for the hot dogs sold to Americans and inspects all meat products.

Regular hot dogs are made of the same wholesome and nutritious meats found in ground beef and ground pork. The label must include the exact ingredients in a meat product in order of prominence.

—Candace Pratt
Director, Consumer Affairs,
American Meat Institute
Washington, D.C.



Simple yield

SIR: In the government-only money market fund section of your Mutual Funds issue (Aug. 29), Government Investors Trust appears to be the highest-yielding fund with return from income dividends of 9.2%. *Donoghue's Money Fund Report* shows that GIT's compounded yield was 9.16%, while the simple yield would only be 8.79%. The instructions on your 1983 mutual funds survey clearly stated that the distribution information was to be given in simple, not compounded,

terms. Other funds were able to comply with your instructions.

—John G. Guffey Jr.
President,
Calvert Group
Washington, D.C.

FORBES regrets the error. GIT supplied us with the incorrect figure and when FORBES called the fund to question it, GIT insisted it was correct.—ED.

Debt versus growth

SIR: I believe a paragraph in "Hidden rocks" (Aug. 15) implies that if a company uses proceeds from a stock offering to retire debt, the company is therefore not using the proceeds to finance future growth. To finance growth, a company should properly balance equity and debt.

Typically, during a company's growth period, the balance of debt versus equity will get too heavy on the debt side. Then a very sound transaction is for the company to raise money through a stock offering in order to retire debt.

—T.M. Freedman
Executive vice president finance
and treasurer,
Wyle Laboratories
El Segundo, Calif.

Debt-to-equity ratio is an important consideration. But investors should also be much more concerned with how much of the offering will be used directly to finance new growth and how much will go to pay off past development, whether that takes the form of accrued salaries or old bank loans.—ED.

Safety reminder

SIR: I must comment on the photo of me standing on the forks of one of our lift trucks ("After the cutbacks, what?" Aug. 29). I made an error in allowing myself to be photographed in such an unsafe position, since standing on the forks is the third leading cause of lift truck injuries. Clark Equipment Co. has gone to great lengths to educate its customers that this should never be done and even places a warning decal on the truck mast as a reminder.

—James R. Rinehart
Chairman and CEO,
Clark Equipment Co.
Buchanan, Mich.

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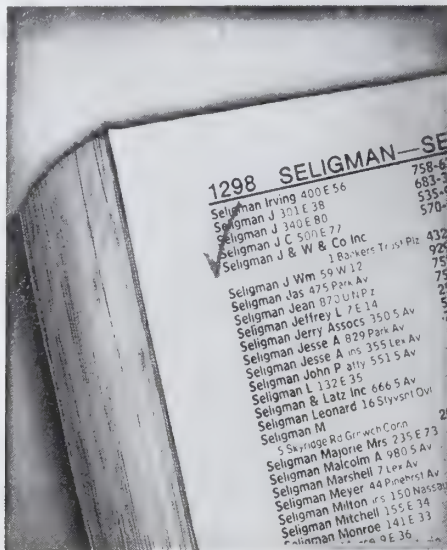
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One Bankers Trust Plaza. New York, N.Y. 10006

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

RUSSIA'S MURDER OF THE 269 PEOPLE

in the Korean 747 is a tragedy that goes far beyond its impact on loved ones.

It puts in the deep freeze the thaw that had begun in our ice-cold relations with the Kremlin.

It will result in defense spending approvals of \$billions that shouldn't be for the likes of two more carrier groups,

the MX missile, etc.—that is, the *whole* Weinberger menu.

It's hard to believe that whoever OK'd the shootdown of the airliner had contacted and received the OK of vacationing Andropov.

It's scary to think that lower echelons have the authority to pull such a potentially earth-shattering trigger.

WANNA MAKE A KILLING ON A HOT NEW ISSUE?

Go for the first common stock offering by the company that comes up with an affordable fail-safe, kid-proof gizmo to prevent unauthorized access to any computer, any program.

Or, price regardless, grab shares in any existing company

that develops a proven arm-lock against access by the unauthorized—without locking out prompt access by the authorized.

Until there is such, no computer program, no computer storage, no one, no thing anywhere is safe.

WHERE ECONOMISTS ARE AT

At lunch here the other day, Joy Manufacturing's A.R. Horn beautifully described where the "discipline" of economics and the professors thereof now fit in the spectrum of human endeavor: "They are almost at the earth-is-flat stage."

ALL PRAISE TO THE GRACE TASK FORCE

W.R: Grace & Co.'s driving 70-year-old chairman, J. Peter Grace, has handed in the last group of recommendations by the presidentially appointed task force, the President's Private Sector Survey On Cost Control.

Implemented, these multiple, unambiguous recommendations for cutting costs of the federal government could save over \$125 billion during the next three years in now-wasted federal funds.

Naturally, Grace and his spirited colleagues are at-

tracting more flak than a kamikaze pilot over a WWII U.S. carrier. The political inexpediency (to overwhelmingly understate it) of many recommendations would suggest that J. Peter is not planning to be a candidate for public office.

But let us pray that President Reagan, who is totally, genuinely dedicated to removing wasted federal \$billions from the budget, can and will move on a meaningful number of the recommendations from his anointed Grace.

IS PENTAGON COMMON SENSE AN ENDANGERED SPECIES?

Read "Paper planes" on page 34.

For heaven's—and safety's—sake, why don't we make a licensing agreement with the Israelis to get what works, a

drone that's *already* proven itself on the battlefield?

I just can't imagine why.

Can you? ? ?

IT'S ANCHORS THAT PROPEL TV PROFITS

When that four-woman/two-man jury in the Show Me State awarded a half-million-dollar damage verdict to canned Kansas City TV news anchorwoman Christine Craft, it dramatized anew television's ongoing conflict between appearance and substance.

There have been infinite attempts to define the indefinable something that makes one TV news program anchor

attract a measurably greater audience than others. It is a fact and a very revenue-significant one, though, that a visible personality makes a vast difference. It's not the measurable I.Q. or background that determines a viewer's degree of confidence in an anchor's voice, face.

Whatever it is, it clearly makes a difference to viewers by the million, to TV networks by the \$millions.

SO WHO'S PRACTICING FREE ENTERPRISE?

Take a look at these excerpts from two press clippings:

• From *Washington Monthly*—

"We keep telling you that the neoliberal faith is spreading, but even we have been surprised by some recent converts. Guess, for example, the identity of the person described in this paragraph from the *New York Times*: 'He stressed the need to improve the output of workers . . . by linking "productive" or "shoddy" work to earnings . . . and encourage "initiative and enterprise."'

"The *Times* was talking about Yuri Andropov. And the city of Peking has not even been content to adopt our proposed elimination of half of the tenured civil service jobs. It is abolishing tenure completely for newly hired employees. They will be hired on contracts that can be terminated by either party with three months' notice. . . ."

* * *

• From *U.S. News & World Report*, an interview of Frank C. Carlucci, president of Sears World Trade and former Deputy Secretary of Defense—

"Q. What can be done about firing incompetent [federal bureaucrats]?"

"A. That is a problem. There have been instances where I have tried to either fire people or move them out, and I have learned that the amount of effort you have to put forth to do it just isn't worth it. It can easily be a year-long process—very expensive in man-hours.

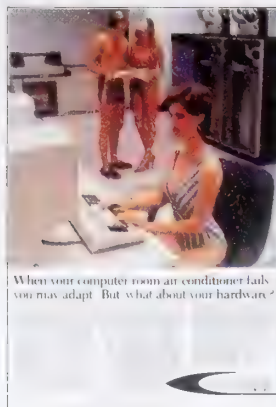
"In theory, you can fire a government worker, but you have to document the record so carefully and there are so many routes of appeal that it is terribly time-consuming. And then there are grievance mechanisms that can be used to frustrate the process."

"Q. So what does an executive do in that case?"

"A. You tend to look for ways to bypass the employee, maybe a promotion to get him or her out of the way. This often happens. I think we have to redress the imbalance between the rights of the individual and the responsibilities of the manager. In my judgment, we've gone overboard in protecting the individual employee and frustrating the manager in accomplishing his mission. You should also be able to provide greater incentives and rewards for the more talented and more industrious employee."

ONLY ONE OF THESE SEX-ANGLED ADS SELLS

In three of these four, the product is made ridiculous by stretching to sell by means of irrelevant-to-silly sex sizzle. Wrangler Boots gets the message across the goal line—scored, one might say.



OUR WEST'S BEAUTY OVER- WHELMS THE EYES OF BEHOLDERS

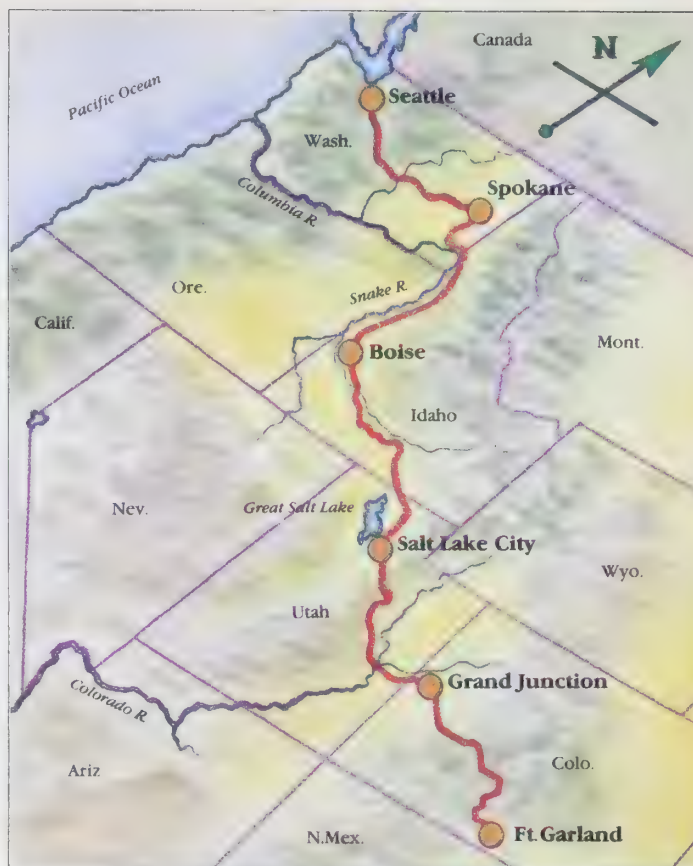
Many times in the past 50 years I've ridden through our western states, most often by car. Sometimes, in years past, by train. Even gone over bits of our West on foot and horseback. In recent times, mostly on motorcycles. The vastness and variety of these lands never cease to stir, stun all one's senses.

This summer, with son Bob and Forbes Trinchera manager Errol Ryland, I cycled from Ft. Garland, Colo. across Utah, through the length of Idaho and the breadth of Washington. For any dull mile of these 2,000, there were dozens that can only be described as awe-full: from the high drama of mountains to the deep rushing-river-gouged gorges; through eye-stretching miles of gently rolling, treeless grazing land into countless acres of still forests and hours upon hours of waving fields and hills of grain. The towns and even the renowned cities of these great states are just small patches on the western canvas.

Not to go West even once is to miss seeing, feeling, understanding one of the prime wellsprings of America's greatness. Go. Be inspired.

* * *

Speaking of vacation-riding through our Land, how many times in setting out have you resolved to stop, see, read the well-flagged historic markers? And how many



times have you done it? One out of twenty? Fifty? One hundred? Or, more like none?

How we waste our time hurrying not to.

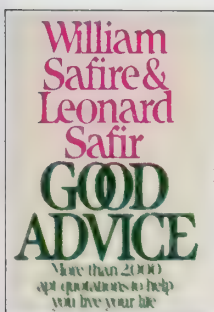
THERE'S NO SUCH THING

as being Nobody or having Everything.

THERE'S NO WAY TO MOVE

without making waves.

BOOKS

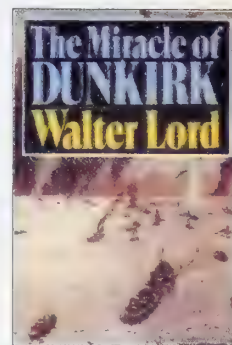


● **Good Advice**—by William Safire & Leonard Safir (Times Books, \$16.95). Bill Safire has few peers in handing out hard-knuckled advice—and devastation to those oft-mighty targets who ignore it. This collection of less fireful quotations came about because “it occurred to my brother, Len, that no book exists that brings together

the best advice on good ways to live the good life.” There are 2,000 bits and longer pieces of—mostly—good advice. An ideal bedside snack book.

Excerpts: *I have a simple philosophy. Fill what's empty. Empty what's full. And scratch where it itches.*—Alice Roosevelt Longworth. . . . *If you must hold yourself up to your children as an object lesson, hold yourself up as a warning and not as an example.*—George Bernard Shaw. . . . *Exercise is bunk. If you are healthy, you don't need it; if you are sick, you shouldn't take it.*—Henry Ford. . . . *To “method” actors: Speak clearly, don't bump into people, and if you must have motivation think of your pay packet on Friday.*—Sir Noel Coward

● **The Miracle of Dunkirk**—by Walter Lord (Viking Press, \$17.95). Once again Walter Lord makes gripping a great historic happening. Those of us alive and glued to our radios during Dunkirk in 1940 had no conception of the scope of the debacle and miracle of the save. This book's on a par with *A Night to Remember* and *Lonely Vigil*.



Excerpt: “Had the BEF [British Expeditionary Force] not returned to this country,” General Brooke later wrote, “it is hard to see how the Army could have recovered from the blow.” That was the practical significance of Dunkirk. Britain could replace the 2,472 lost guns, the 63,879 abandoned vehicles; but the 224,686 rescued troops were irreplaceable. In the summer of 1940 they were the only trained troops Britain had left. Later, they would be the nucleus of the great Allied armies that won back the Continent. The leaders—Brooke, Alexander, and Montgomery, to name only three—all cut their teeth at Dunkirk.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

No Robotic Humans

It's conceivable that someday we will build a robot that will learn, that will show some of the things that are typically human such as insight, intuition, creativity, inspiration. But even if we do, it would be so troublesome, so difficult, we would have to put so much into it, that it wouldn't be cost effective. It wouldn't be worth our while. Human beings can do it so easily.

—Isaac Asimov,
at Ithaca College commencement

Defenseless Computers

The possibilities for committing crime, espionage or sabotage with computers are limited only by the imagination.

The National Security Agency, an arm of the Department of Defense, is responsible for safeguarding American military and diplomatic communications. Unfortunately, no comparable federal agency exists to protect the private sector. To make matters worse, law enforcement agencies have neither the legal framework nor the technological expertise to detect, prosecute and discourage computer crime.

—Peter J. Ognibene,
New York Times

Poor Play

Forty-four-year-old Daniel Yannielli scaled a 10-foot concrete wall beside an elephant cage at the Honolulu Zoo in Hawaii, stripped to his underwear, and played his harmonica for Empress, the Indian elephant inside. Yannielli was arrested and charged with cruelty to animals.

—Associated Press, as reprinted
in *National Lampoon*

How To Show & Tell

One of the biggest problems that Ford sees is that while the Tempo's interior measurements are about the same as those of competitive domestic compacts, the car's curvy design makes it look much smaller than the boxy models. But convincing consumers that the Tempo really is a five-passenger car presents its own problems.

A proposal to use five adults in a commercial was turned down because

it doesn't convey the image of family car. Similarly, an idea to use a mother, father and three small children was rejected because savvy consumers know that three little kids can fit into the back seat of any car. The solution was to use a father, mother and three good-sized teen-agers. This still had the drawback of making the parents older than Ford's target audience.

—*Wall Street Journal*

Hazards of the Cost-Cutter

Interview of W.R. Grace & Co.'s J. Peter Grace, who is head of a cost-cutting study of the federal government.

Q: The survey [the President's Private Sector Survey on Cost Control in the federal government] was set up to look for waste, but it looks like it's making a lot of recommendations about policy.

Grace: I really can't differentiate. If a policy creates waste, then it's waste. They're so intermingled that only people who want to handicap us will use those points.

Q: What's wrong with our process of clearing people for conflicts of interest?

Grace: I call up the head of IBM, Frank Cary, to ask him if he'll volunteer [to work on the survey]. He says, "Sure." I want to put him on automatic data processing. But no way. Here you've got obsolete computers costing the government \$14 billion a year, but no, Cary can't touch it. So I put

him in the office of Secretary of Defense. But that's got a lot of computer problems. He finally got into the office of Housing & Urban Development. Now, that's ridiculous because if IBM were to come down here, they'd have a bright light on them and they'd lean over backwards to be fair.

—*New York Times*

Perhaps 80% of the difference in productivity gains between us and Japan is attributable not to quality circles, job tenure or the like, but to differences in investment rates.

—William Baumol,
economics professor

Psssssss . . .

Only one incident contravened Vendo Co.'s meeting's upbeat tone: a shareholder question about an unfavorable profile in *FORBES* magazine. In response to the shareholder's inquiry, CEO Richard Donegan branded the article as "awful," "a blindside" and "an unfortunate, uncalled for, derogatory [piece] of prose" with "very thin analysis."

Donegan said it was the article's derogatory tone, not its adversary viewpoint, that disturbed him. He said he expressed his views in a critical letter to publisher Malcolm Forbes, but Forbes' response was perfunctory.

Chairman of the Board Spencer Childers added, "I hope Mr. Forbes' balloon springs a leak."

—*Fresno (Calif.) Bee*



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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief



REAGAN AND THE GOP—A CRUCIAL TEST IN '84

While political journalists understandably will try to report the 1984 presidential race as if it were one, Ronald Reagan should win reelection by a comfortable margin. The Democratic nominee remains unknown, but whoever it is shouldn't change the ultimate outcome.

The real question about 1984 is: Will President Reagan's coattails be strong enough for congressional Republicans?

Will he be like Ike and Nixon, both of whom retained the White House with landslide victories while most other GOP candidates went down to defeat? Or will he pull along the rest of his party the way FDR customarily did in his reelection bids?

The answer will have a large impact on Reagan's place in the history books, helping to determine whether or not his accession will make for a lasting change on the political landscape à la Franklin Roosevelt a half century ago.

Gloomy Outlook

The portents for the GOP don't look good.

The decision by Senator John Tower (R-Tex.) to step down next year, on top of Majority Leader Howard Baker's (R-Tenn.) similar announcement a few months ago (Baker would have been a shoo-in), further diminishes Republican chances of holding the upper house of Congress. The majority of seats to be contested in 1984 are held by Republicans, and many are considered vulnerable. Prospects for Republicans in the House of Representatives, where they are a decided minority, aren't much better.

Although most White House politicians don't seem to realize it, how well Republicans do in next year's congressional races will depend in great measure upon what kind of campaign the President wages.

Some advise that he conduct a bland one, ducking issues and avoiding policy initiatives. The stress would be on personality and incumbency.

Too often the White House staff fails to appreciate the power of the President to set the terms of debate rather than merely to respond to criticism.

Critics should be forced to fight on the President's

ground rather than the other way around.

How? It wouldn't be that difficult, at least in the eyes of this armchair strategist.

Spending. The White House has gone out of its way to conciliate Democrats on congressional appropriation bills that come in above the President's budget. The President should stop trying to appease these budget busters and start wielding his veto pen. He has enough support in Congress to uphold such vetoes. He would certainly save more money that way. More important, he would be seen as "doing something" about the bloated budget.

Taxes. Reagan should unveil in his 1984 budget message a sizable income tax cut, especially for middle income earners. Financial experts and Democrats would howl, but the President could cite John Kennedy, as well as the Japanese and German economic miracles, for historic support. He could say his 1981 reductions have barely covered inflation and the increased levies to save Social Security, and taunt the Democrats thusly: "They seem to think the major economic problem in this country is that Washington doesn't take enough money out of your pockets."

Monetary policy. Reagan should call for a new Bretton Woods conference to design an international monetary system. He should emphasize that the old system, for all its flaws, led to enormous economic growth, lower interest rates and little inflation until it was gratuitously destroyed by Lyndon Johnson in the late 1960s. The public won't much care for the intricacies of monetary policy, but they will respond to a vision of economic growth based on successful principles of the past.

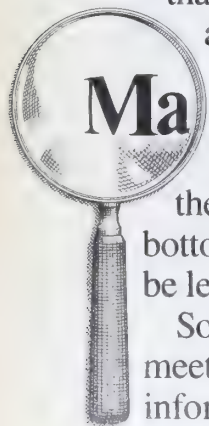
Foreign policy and defense. In the wake of the Korean airline massacre, the President should throw down the verbal gauntlet, pointing out that, for all their criticisms, the Democrats have yet to unite on realistic alternatives.

In short, if the President updates and stresses the positive themes he used in 1980, primarily economic growth, he will go a long way in helping other Republicans who share his principles.

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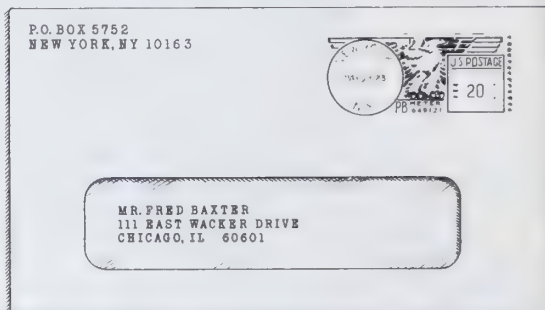
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THE OUTLOOK FOR WAGES—NO SURPRISES

WHITHER WAGE RATES? Leaders representing 43% of all workers covered by major labor agreements are renegotiating in 1983, with consequences that will affect wage levels into 1986. Upcoming negotiations to watch as weather vanes include, this month, some 40,000 long-shoremen on the East and Gulf coasts; about 100,000 aerospace workers in October; then petroleum in January, construction in April and railroads in June.

Management will keep pushing for give-backs

THE CHRYSLER SETTLEMENT EARLIER THIS MONTH was heartening for the brisk, no-nonsense style that prevailed on both sides of the bargaining table, but it's not much of an indicator on any other ground. The United Auto Workers leadership is still playing catch-up at Chrysler, whose workers were making less than their brothers and sisters at GM and Ford.

Wage increases are running at a remarkably low rate this year. That may be too good to last, but there is little evidence of an inflationary bustout. The telephone workers, for example, settled last month for a 16% increase over three years. Before talks began, the union wanted a gain in the 23%-to-28% range.

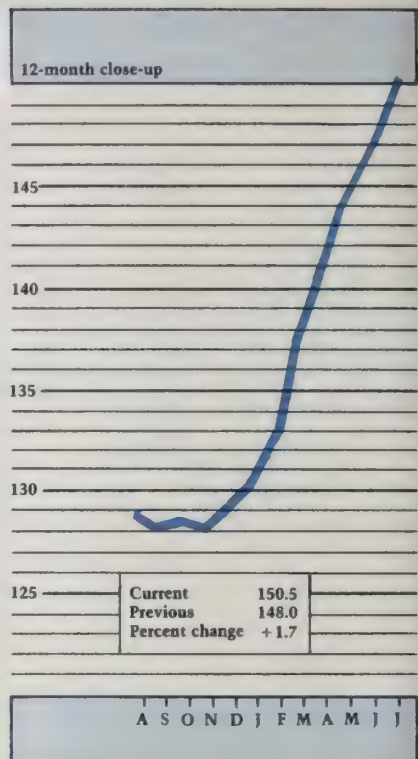
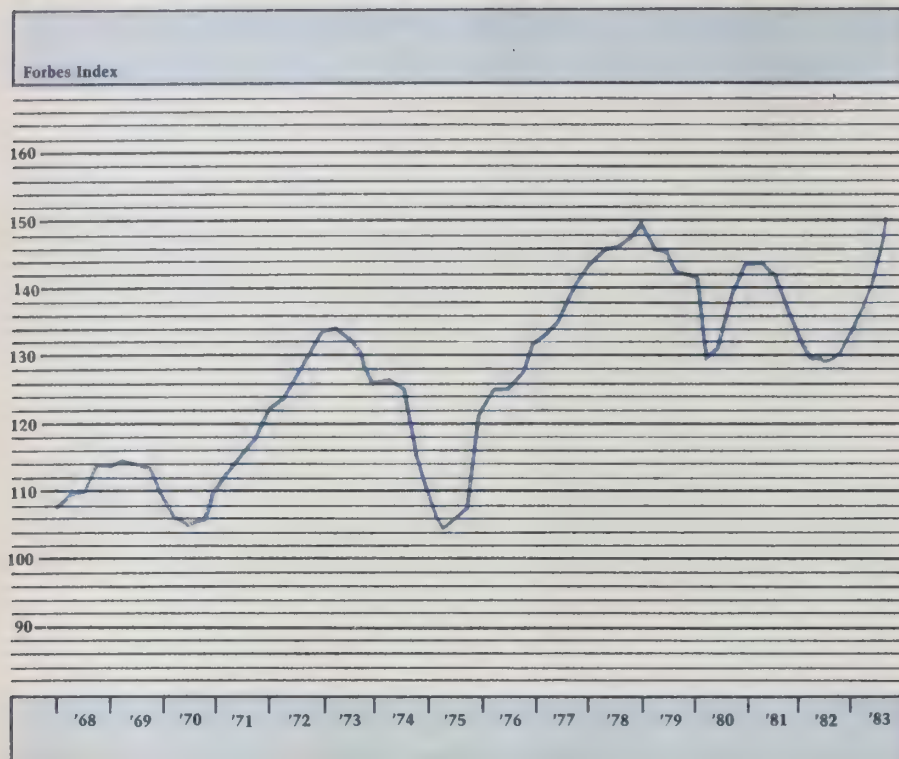
Despite rising corporate profits, the late recession has left bargainers on both sides running scared. Expect managements to keep pushing for take-aways and give-backs—concessions made by unions—to increase productivity as part of new settlements. To track the large trend, keep your eye on a particular statistic, the "effective wage rate." That figure reflects not only increases under new contracts but also increases under existing contracts and cost-of-living formulas. For 1983 as a whole, What's Ahead expects it to show a sharp drop, from 6.8% in 1982 to under 4.0%.

The anxiety in the commodity market seems overblown

THE LORD TAKETH AWAY, BUT HE ALSO GIVETH. Prices paid for farm products will not rise sharply through next year despite the summer-long drought in the Midwest. The damage to this year's corn crop has not been overstated. But cushioning the impact, in part, is the fact that there are substitutes for corn as a feed grain and that elsewhere the weather has been better than in the Midwest. Wheat yields, for example, are at near-record levels in the Pacific Northwest, in some cases averaging 100 bushels per acre, against 60 last year. That, plus enormous stockpiles of corn surpluses—some 3.4 billion bushels—will help keep grain stocks above shortage levels from now through late 1984.

Speculation, nevertheless, has gripped the grain futures markets. Since early July, corn futures prices on November contracts have jumped nearly 30%. The underlying fear seems overblown. Consumers, in any case, shouldn't be hard hit. With high feed prices, cattlemen and hog farmers are rushing their meat to market. These heavy shipments, of course, will lead to tighter supplies in 1984. Even so, the price increases will not be worrisome. The recession taught consumers to shop for bargains as never before.

The Forbes Index



Pushing up. The Forbes Index, once again, made a respectable gain. With a 1.7% advance, it is now at an alltime high. Helping to boost the Index was a healthy drop of 6.6% in new unemployment claims from June to July. This is the fourth consecutive month in which this statistic has declined, and the trend is an encouraging sign. A rise in consumer prices also contributed to the gain. The service

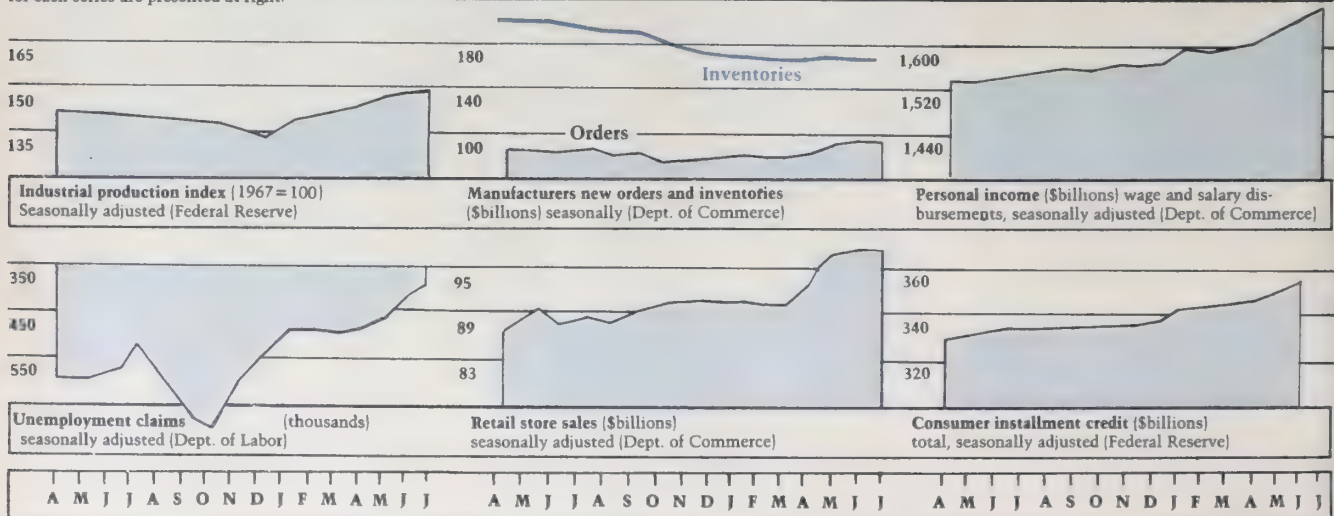
component shows a 0.5% month-to-month rise, while the total Consumer Price Index moved up only 0.4%.

Two components slowed the upward movement: manufacturers' new orders were down 3.6% and inventories declined 0.1%. But, in the short run, these minor setbacks could help minimize inflationary pressure. In the long run that could help to sustain the recovery.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.





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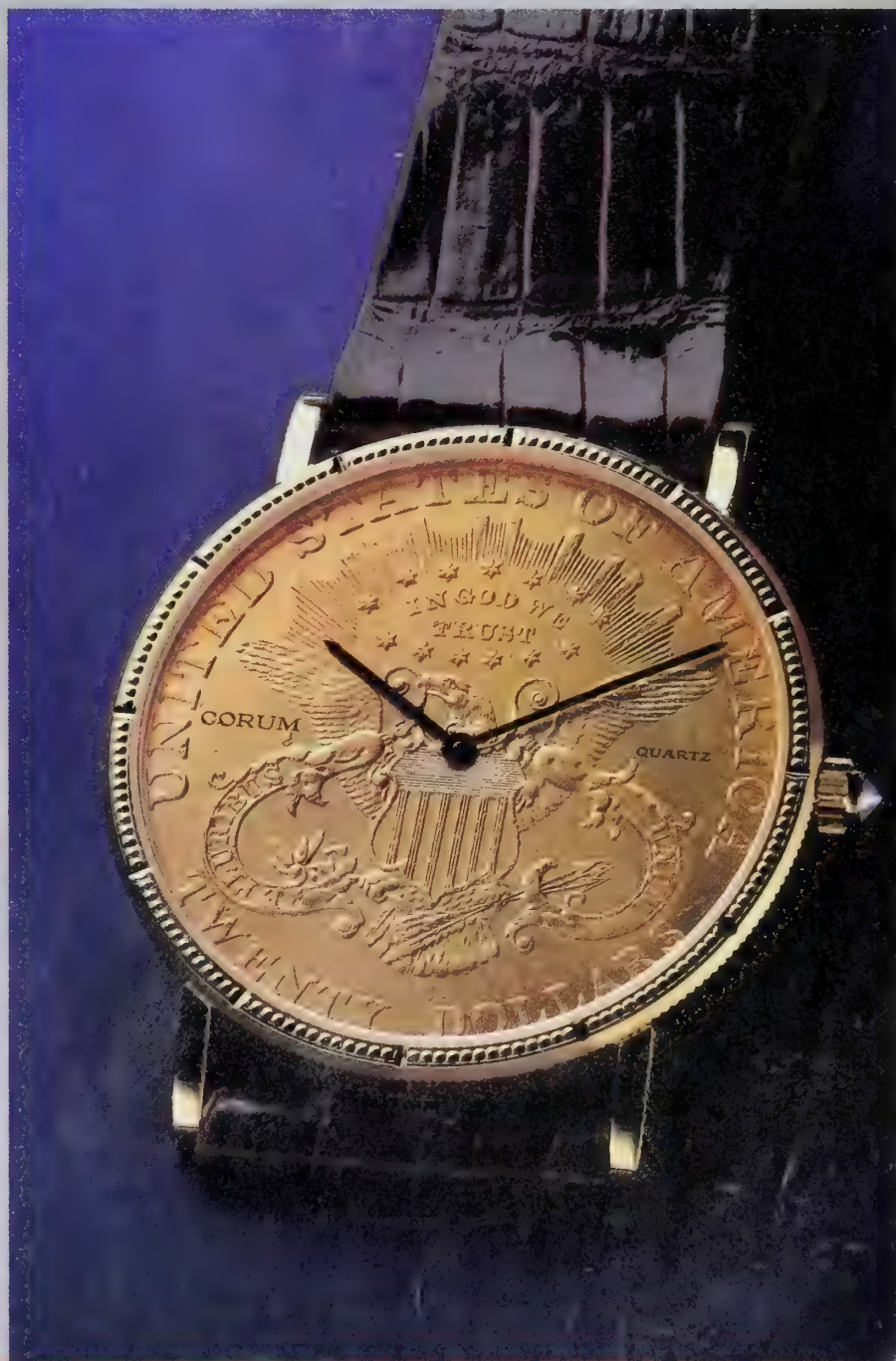
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No more Mr. Nice Guy

By Allan Dodds Frank

THE ADVERTISEMENT in the *Commerce Clearing House Daily* was clear enough. The Internal Revenue Service was advertising for information from anyone who could provide names, addresses and annual incomes of Americans.

That little ad is part of a new effort by the IRS to collect taxes from all those folks who seem to live well and fail to report. If the IRS can get it cheaply enough, it will buy information about how much you paid for your house or what kind of car you drive. The IRS also could buy lists of restaurants where you have an account, clubs where you're a member or charge accounts you possess.

The solicitation appears to be step one of an IRS plan to build computer profiles of all Americans—starting, of course, with the richer ones. The IRS estimates nonfilers cost the government \$3 billion in 1981, and underpayments by individuals and corporations another \$81.5 billion. The proposal by IRS to "test" information commercially available follows experiments in which taxmen bought commercial lists of 300,000 truck owners. IRS matched the lists to its own computerized taxpayer rolls, ordered 10,769 taxpayer investigations and collected \$3.7 million from 10,680 taxpayers. The IRS also has purchased a medical journal's subscription list to run it through the computer and see if

any doctors are forgetting to file.

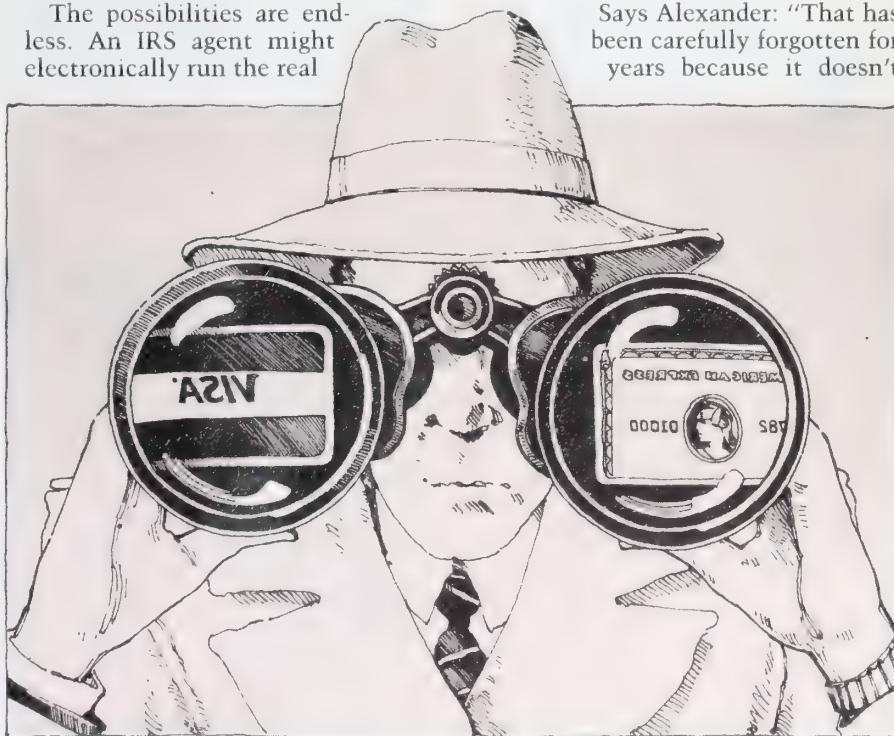
Deputy Assistant IRS Commissioner Walter E. Bergman has said that examining "lifestyles" of taxpayers is "no big deal," but no ranking IRS official will be interviewed on the matter. IRS spokesmen confirm, however, that plans are afoot to build an IRS database from information compiled by private firms from public sources, such as car registration and real estate transaction lists.

The possibilities are endless. An IRS agent might electronically run the real

estate rolls against taxpayer lists, or run through the computer all the names of people who have registered Mercedes-Benzes, Jaguars and Rolls-Royces. Laws now prevent IRS from buying information directly from commercial credit bureaus, but the taxman could buy charge account lists from individual stores. Imagine focusing on mailing lists for Gucci, Tiffany or Giorgio's of Beverly Hills. IRS spokesman Rod Young says: "We're looking for individuals whose lifestyles indicate substantial incomes. Generally speaking, we're talking about professional people who are self-employed."

Donald C. Alexander, IRS Commissioner between 1973 and 1977, thinks he can explain what's going on. "There's some mysterious provision in the IRS code that nobody has paid any attention to in the last 50 years that says IRS agents shall, like locusts, go out and canvass the populace," he says. That is Section 7601(a) of the Internal Revenue Code, which permits IRS agents to "inquire after and concerning all persons... who may be liable to pay any Internal Revenue tax, and all persons owning or having the care and management of any objects with respect to which any tax is imposed."

Says Alexander: "That has been carefully forgotten for years because it doesn't



make any sense to have a horde of agents marching side by side through a neighborhood inquiring after all persons who may be liable to pay all taxes. Can you envision that? It's just beautiful. I used to think about it at night on Saturdays."

But computers make such a march possible. And here's a twist. The data IRS wants to buy often couldn't be obtained under its subpoena powers, because it fails legal tests of "relevance" and "specificity" to investigations of particular individuals.

Alexander believes such IRS plans are "grotesque," bad for the tax system because they will generate mass resentment. "Some of the people living in big houses and paying low taxes

might be doing so for good reason," says Alexander. "They might be living off munis [municipal bonds]." He says the IRS already has, and frequently ignores, more useful information: 1099 forms reporting dividends and interest and records of all cash bank transactions of more than \$10,000. Former IRS Commissioner Mortimer Caplin (1961-64) suggests the IRS increase its audits of current returns from 2% to 5%. Using computers to match "lifestyles," says Caplin, "is a threat to the whole sense of privacy of the American public."

The inherent privacy problems also bother former IRS Commissioner Jerome Kurtz (1977-80), but he believes occasional use of commercially pur-

chased information by the IRS might help keep people honest. Accurate reporting of income—voluntary compliance—has declined about two-tenths of a percent per year for the last decade. But Kurtz says: "It might signal the beginning of a long-term system of putting together comprehensive files on people. The existence of extensive files is subject to abuse, and it bothers me that somebody would be sitting there with an information dossier about my life."

Of course, the Congress is just back from summer recess, and it might have a word or two to say about the IRS effort to play Big Brother. Presumably, the IRS would be building a file on the members of Congress, too. ■

Nobody likes a sale better than stockbrokers like it. But take a look at just what they've personally sold lately.

Insider insights

By Ellyn Spragins

HAPPY ANNIVERSARY, Wall Street. Just a year ago brokers stood knee-deep in stock purchase orders while their phones rang off the hook. Today business is slower, but brokers are still making some fast moves. The latest? Unloading shares of their own firms' stock.

Does that tell us something? Maybe. A company's insiders, common sense argues, know more about the company than outside investors know. So when company directors and officers buy or sell its stock, investors should take notice. Insiders in all industries are selling stock more heavily than at any time in the past decade, says Norman Fosback, editor of *The Insiders* newsletter. These days, however, not many are selling more unanimously and persistently than brokers.

Given the past year's bull market, perhaps that is not surprising. After all, why not take long-term gains

when they're to be had? Yet, few people sell shares they think will double again soon. Says Fosback: "It could be that the market is about to go into a nasty correction. Insiders just think that their stock prices are too high relative to the fair value. Otherwise they would continue to hold."

The brokers themselves have any number of other explanations for why they're selling. "It's only prudent to diversify," says a Paine Webber insider. "Have you ever heard of estate planning?" asks an E.F. Hutton officer who sold "I don't remember—12,000 or 15,000" shares out of roughly 200,000 he held. A Merrill Lynch spokesman says its insider sales were insignificant and based on "personal portfolio decisions." Donaldson, Lufkin & Jenrette's director, Carl Tiedemann, needed some liquidity and points out, "I've got four children in college, etcetera, etcetera."

Etcetera. The reasons an insider might dump stock far outnumber the reasons he might buy. Insider watchers thus consider a stock sale less important than a purchase in predicting a stock's performance. And brokers tend to sell more often than other insiders.

Still, the brokers are selling enough to bring Fosback's rating for the brokerage industry as an investment down to a three-year low. It can't be stressed too often: People don't sell

Broker bailouts

Insider transactions may signal peaks in brokerage stock prices as selling currently outweighs buying.

Firm	sellers	—Feb. 28 to Aug. 29, 1983—		number of shares
		number of shares	buyers	
Advest Group	11	128,851	0	0
Donaldson, Lufkin & Jenrette	3	8,400	2	1,440
AG Edwards & Sons	35	213,940	4	214
EF Hutton	12	163,402	0	0
Merrill Lynch	4	16,500	0	0
Paine Webber	8	459,818	1	5,000

Source: The Institute of Econometric Research, Ft. Lauderdale, Fla.

stocks they think will rise soon. They do sell stocks that they think are overvalued.

The table on page 32 tells just part of the story. It does not include all sales, such as private transactions, nor, because of Securities & Exchange Commission reporting lags, does it reflect the most recent insider sales.

Still the numbers are revealing. Consider A.G. Edwards, 35 of whose insiders sold in the six months prior to September. Benjamin Edwards, the firm's president, who says he sold some of his Edwards shares to buy antiques, believes the figure is inflated because, until recently, all officers had to report their transactions. But they're selling, not buying, except for four small-timers who picked up 214—that's right, a total of 214—shares in the past six months. The 35 sellers sold many thousands.

Edwards Vice President L. Birt Kelam seems much more market-conscious than most brokers in his explanation of his selling. "I just felt the market is ready for a breather," he says, "and if it was going to go down, I was confident that all brokerage stocks would go down." He sold almost 40,000 shares during June at prices ranging from \$40 to \$42 a share. Nice timing. Edwards shares now fetch only \$30 or so.

Even so, insiders can and often do go wrong, especially in the timing of their sales. For every study that shows insiders are prescient, there is another that disproves the thesis. Few competent professional money managers base decisions largely on insider buying or selling. Insiders, says Perry Wyson of the *Consensus of Insiders* newsletter, "almost always buy too soon, and they almost always sell too soon. And they are likely to be a little bit shorter-triggered at brokerage firms."

But look at the fundamentals. Brokerage earnings come from stock market volume, and that has tumbled in recent months. Those 100-million-share days have shrunk to 60-million-share days. The probability that brokerage-firm earnings for the third quarter will beat last year's incredibly flush third quarter is next to nil. So, for many insiders sitting on 200% and 300% gains in their company stock, the temptation to turn those profits into cars or houses is apparently irresistible. For once, it seems, Wall Street is honoring one of its zoological aphorisms in the observance rather than the breach: Pigs get fat, but hogs get slaughtered. Outsiders investing in brokerage firms should heed that maxim, too. ■

You say you love the kids and you're glad they stay in touch? But how, you ask, can you find the time to keep up your end?

Electronic parenting



SEATED ONE DAY RECENTLY at his personal computer, a *FORBES* reader known to us was restless, ill at ease and feeling guilty about how tough it is to stay in touch with his kids, all three of them semigrown and away at school. The kids were keeping up their end. It was our reader-parent who was laggard. One thing led to another as his fingers wandered idly over the not very noisy keys, and the result appears below. Here, he told us in a covering note, is an answer for loving, busy parents hoping to cement relations.

<MONTH, DAY>, 1983

Dear <NAME OF CHILD>:

It was truly wonderful and special to receive your letter and <NUMBER OF CALLS> phone calls. It sounded as if you were right next door, instead of <NUMBER OF MILES> miles away.

Your concerns about individuality are not well founded. <NAME OF CURRENT WIFE> and I regard each of our children as special and apart, <NAME OF CHILD>. Your lovely <HAIR COLOR> hair, <EYE COLOR> eyes and personality traits of <FIRST TRAIT> and <SECOND TRAIT> make you very dear to us.

What have we been up to? We've been relaxing and enjoying the <SEASON>. On <MOVIE DAY> evening, we saw <NAME OF MOVIE>. It was <POSITIVE MOVIE ADJECTIVE>, although somewhat <NEGATIVE MOVIE ADJECTIVE>. We also went to the theater with <THEATER PERSON> and saw a <THEATER ADJECTIVE> production of <NAME OF PLAY>. It's about <PLAY ABOUT>.

Have you been following the terrible events in <COUNTRY OR REGION>? The actions of the U.S. seem questionable, at best. On the other hand, the atrocities committed by the <GOVERNMENT OR GUERRILLA> forces are a

serious provocation threatening peace in the area. Moving on to more important things, we've just paid a fortune to have the <CAR OR APPLIANCE> fixed. It was <CAR OR APPLIANCE SYMPTOM>.

Mom has been keeping quite busy working on a report for the <NAME OF ORGANIZATION>. As usual, there's quite a bit of back-stabbing between the pro-<ISSUE> and anti-<ISSUE> factions. I am working quite hard on <NAME OF SICK COMPANY>. I think things there seem to be <DETERIORATING OR IMPROVING>.

<NAME OF COUPLE> are waiting and we must rush off to <NEXT FUN EVENT>, so I'll cut this letter short. It took forever to write, as I thought about the things I wanted to tell you and only you, <NAME OF CHILD>. We've also heard from <NAME OF FIRST OTHER CHILD> and <NAME OF SECOND OTHER CHILD>, but I'll let <NAME OF CURRENT WIFE> fill you in on that when she writes.

I love you a lot and would write you more frequently, but I fear a certain sameness to my letters. Perhaps it's just my imagination, <NAME OF CHILD>.

Love,

If the idea appeals, you will want to know that our reader composed his loving letter on an Apple 2 Plus microcomputer, using the "form fill-in" feature of the Word Handler word processing program. He is proud of it but, understandably, does not wish his name attached to it. ■

For little cost, as such things go, the Army could have an efficient remote control plane. Instead, it is going for a far more complex plane that will take years to deliver and may not work well when it arrives.

Paper planes

Lockheed's Aquila

Why not complicate the matter?



By Michael Cieply

IT IS EVERY field commander's dream. Like a model airplane enthusiast, he sends an inexpensive, pilotless aircraft behind enemy lines. His "eye in the sky" instantaneously sends back video images of gun emplacements and troop movements. If the enemy spots the drone before it spots them, no problem. It was cheap to make, no life was lost. Just send up

yet another one.

The remotely piloted vehicle, or RPV, is not a dream. It is a reality, although not for American forces. The Israelis used RPVs last year to help deal the Soviet-equipped Syrians a humiliating defeat in Lebanon's Bekaa Valley. Radar-reflecting decoy drones lured SAM anti-aircraft batteries into wasting deadly missiles. Then RPVs, locating targets electronically, helped Israeli jets to destroy 19 SAM

launchers while suffering only a single loss. Meanwhile, video-equipped drones hovered above Syrian airfields, signaling each time a MiG took off. That allowed Israeli fighters, armed with air-to-air missiles, to score 81 "kills" with no losses of their own.

Does the U.S. have such drones? No. For years a U.S. version of the RPV, dubbed Aquila—originally designed to spot artillery targets—has been on the drawing boards at Lockheed. It is still a paper weapon, soaring only in cost, as the designers find new ways of gold-plating what was always meant to be a cheap, virtually disposable, airplane.

The Army has invested nine years and nearly \$200 million in its long-promised RPV, now scheduled for deployment in late 1987. Total cost of developing and building the first 548 drones may reach \$900 million, while Israel's Tadiran Corp. spent about \$15 million to develop its Mastiff, one of two RPVs proved in Lebanon.

Much worse, an Army review in August discovered that sundry Army units want the U.S. RPV to perform as many as 60 different tasks, from dropping leaflets to electronic countermeasures. Rather than develop several versions of RPVs, top brass is trying—shades of the Pentagon's F-111 mess of two decades ago—to assign as many of those wide-ranging tasks as possible to Aquila.

That might be feasible with a simpler vehicle. But Aquila's delicate aerodynamics—chiefly its elegant tailless design—restrict it to small payloads with precious little flexibility and margin for error. Accommodating so many different tasks could stretch delivery beyond 1989. Nor is that all. Quick-moving Marine Corps units and the Army's Rapid Deployment Force (the 9th Infantry Division) blanch to discover that the care and feeding of a multimission Aquila will require a 20-truck logistics train, big enough to displace at least that many tanks on a crowded transport.

The dream of pilotless air reconnaissance approached reality in the early 1970s, as microprocessors shrank video and datalink technology to a size compatible with radar-ducking miniplanes. Having lost scores of manned jets to SAM batteries in the 1973 Yom Kippur war, Israeli brass were quick on the uptake. In 1974 Tadiran flew a prototype RPV consisting of little more than a Sony home video camera mounted on a balsa wood frame. Within four years a rapidly developed fleet of lean—and, above all, cheap—multiple-use vehi-

cles reached production.

But the virtues of simplicity seem to rank low on the Pentagon priorities. Army technical staff engineer Terrence Gossett talks of Aquila's "spread-spectrum" and antijam gadgetry designed to thwart "postulated electronics threats through the year 2005." The drone's inertial navigation device, he says, will resemble that of the cruise missile's. Ground stations will be chemical-, germ- and nuclear-proof, at a staggering cost of \$13.2 million each. You can almost hear the costs rising.

As if this weren't enough, the Pentagon must now miniaturize existing technology such as its forward-looking infrared (FLIR) night vision devices to fit Aquila's tiny payload berth. That effort might be easier if Aquila, like clunkier Israeli cousins, had a tail. But the hard way seems to have its charm. Says Gossett, with unconscious irony, "When the Jet Propulsion Lab saw Aquila, they said, 'You've got a low-flying satellite. You're doing everything we're doing.'"

While design and testing proceeds, U.S. ground forces must still rely on photographic reconnaissance sorties by manned vehicles whose pictures reach front-line units in about four hours. That can be a lifetime on the battlefield.

Worse still, those same troops could soon find themselves monitored by hostile RPVs. At least 20 nations, including Saudi Arabia, Egypt and India, have begun shopping for drones in the wake of Bekaa. Developmental Sciences, Inc., a City of Industry, Calif.-based manufacturer, has already sold RPVs to two Third World countries. Sighs DSI President Gerald Seemann: "One of those systems will have been in place for five years before the Army gets any."

Seemann, who would like to sell his RPVs to the Pentagon, is hardly a disinterested party. But he knows whereof he speaks. DSI built Aquila's first airframe under subcontract to Lockheed in 1975. In later developing his no-frills Skyeeye, with which buyers are currently patrolling unfriendly borders, Seemann added a tail for flexibility and a compact, lightweight Japanese motorcycle engine. Result: Seemann flatly asserts that Skyeeye, developed for \$10 million, can carry any of Aquila's payloads, has three times the endurance and, in full production, would sell for roughly one-third of Aquila's price of \$22 million per 13-vehicle divisional set.

Now the Marine Corps, impatient to field an RPV by 1985 but dependent on the Army for weapons procure-

ment, has begun looking on its own at Skyeeye and other vehicles. What does the Corps seek? "Our view is to make it [the RPV] as simple as possible," snaps Marine Colonel John Carlton of the Pacific Missile Test Center. In a similar rush the Air Force has launched a hush-hush program to develop a cheap, expendable RPV with Boeing.

Lockheed, not surprisingly, has begun to fidget. Though apparently still secure in its role as sole contractor on Aquila, the aerospace giant recently began to work on an additional, less complex RPV using its own development dollars. Perhaps Lockheed has discovered, if the Pentagon has not, that reliable simplicity is often its own reward. ■

In Ben Franklin's day, insurance companies did the firefighting as well as the underwriting. That might be coming back, courtesy of municipal governments.

The cities CHIP in

By Ellen Paris

ONE OF BENJAMIN FRANKLIN'S many ideas was to tie firefighting and fire insurance underwriting together, so that the insurance company was also the fire department. The idea was put into practice around the dawn of the Republic. The insured prominently displayed a wrought-iron mark above their doorways, indicating that their premiums had been paid up to a par-

ticular insurance company. No mark, no firemen.

Now Ben Franklin's idea, with a twist, is enjoying a new popularity in the western U.S. In April California initiated a plan called the Cooperative Home Insurance Program, or CHIP, under which cities cooperate with insurance companies and homeowners to help reduce losses.

CHIP was designed by AVCO Financial Insurance Group and a group of California municipal officials.



Homeowner participating in a safety and security analysis
Things are a little more complicated now.

Here's how it works: A homeowner requests a home safety and security analysis from the city's police and fire departments (most cities offer this anyway). Then a participating insurance company writes up a policy. The insurance company pays any claims, and underwriting profits are shared with the city, which does not, however, bear any underwriting risk. Explains Richard Zizian, president of Cooperative Insurance Marketing Associates (CIMA), the marketing and development agency for CHIP: "We're saying that if the cities are the ones to make our program work, then we should recognize that by sharing some of the revenues with them."

Premiums could probably be 20% to 30% less than prevailing rates in the cities, says Bill Hanna, executive vice president of CIMA, which markets CHIP for AVCO and New Hampshire Insurance Group (a subsidiary of American International Group).

So far, five California towns—San Clemente, Duarte, Mill Valley, Seal Beach and Oxnard—have signed up, and another 26 are implementing the program. Bill Hanna says he has received inquiries from 120 California cities, and expects that 40,000 CHIP

policies will be sold over the coming 12 months. The California Contract Cities Association, which has about 65 city-members, works to strengthen the contract city system and is supporting CHIP. Outside California, both Orem, Utah and Portland, Ore. are considering it.

City managers like the idea, they say, because the city might make some money. Last year, for example, single family homeowners in San Clemente, Calif. (pop. 29,500) paid out about \$3 million in homeowners' insurance premiums against 1982 claims of around \$500,000. Under CHIP a portion of that \$2.5 million difference would be turned over to San Clemente's treasury. But the main thing, says Ken Caresio, city manager of Duarte, Calif., which has agreed to implement the program, is the required safety analysis. "Even if we don't make a dime," he says, "we'll have made our city safer."

What's in it for the insurance companies? To them CHIP represents a chance to break the market stranglehold of the three industry giants, State Farm, Allstate and Farmers, none of which is taking part. The big three have about 65% of the national

homeowners' insurance business; AVCO and AIG's New Hampshire Insurance Group think this is a chance to grab some of that business. What do the big companies think of CHIP? "It's not necessary," argues a spokesman for Allstate. "The market is well served by private enterprise." Retorts Harry Bruno, risk manager for Hayward, Calif.: "I think the major insurance companies are afraid that if this takes off, they will have to develop more competitive products."

Maybe. But, of course, those profits the cities are expecting will depend on how well CHIP handles its underwriting. Insurance companies are notorious for shaving premiums down in good times and getting squeezed when the market dips or when a lot of claims hit all at once. That, after all, is what the "underwriting cycle" is all about. Do the cities want to go into partnership with that? In any event, the cities will not be paid any underwriting profits until a statewide \$1 million premium reserve pool has been accumulated. Ben Franklin's idea may be as serviceable as it was 200 years ago, but things are a little more complicated now. ■

How will investor-owned hospital chains fare under Medicare's new fixed-rate reimbursement system? Let's find out, says Humana's David Jones.

Roll the DRGs!

By Geoffrey Smith

ON OCT. 1 Medicare reimbursement to hospitals will start changing from the present cost-plus system to a fixed-rate system, as called for in the 1983 Social Security refinancing legislation. The new system is called "prospective payment" because rates are set in advance of treatment according to which of 467 "diagnosis-related groups" (or DRGs) a patient is deemed to fall into. It is certain to cause major

cost-control problems for the nation's 5,800 acute-care hospitals, which get an average of 36% of their revenues from Medicare and Medicaid.

Is this a golden opportunity for the supposedly more efficient investor-owned hospital chains like \$1.5 billion (net revenues) Humana Corp. or \$3 billion (net revenues) Hospital Corp. of America?

On Wall Street the bulls are predicting a period of explosive growth for such for-profit hospitals. There will be a shakeout among nonprofit volun-

tary hospitals, the theory goes, that will drive many of them into the arms of investor-hospital chains. Bears point to studies like the one published recently in the prestigious *New England Journal of Medicine*, claiming that investor-owned hospitals are actually less efficient than the voluntaries and make most of their money from excessive use of services like laboratory testing or plain old price-gouging practices which Medicare's new fixed rates should curtail sharply.

Who's right? FORBES put the question to David Jones, chairman and chief executive of Louisville's Humana Corp., a Wall Street favorite, with a fancy price/earnings ratio of 18 and the industry leader in both return on equity and earnings growth. Is prospective payment a blessing or a curse for the investor-owned hospitals?

Jones: It's more of a blessing than a curse. But it's still far from a blessing. As Peter Drucker pointed out years ago, if you pay all hospitals at average cost, you give every hospital in the country a reason to be cost-effective.

That's essentially what DRGs do, except for one very nasty problem: Some 6% of the average payment will be withheld as a fund for patients who have to stay in the hospital longer than expected. Another 1.6% will be withheld for the budget neutrality

provision, which will go to some of the highest-cost states—New York, Massachusetts and Maryland. They have been exempted from this discipline for three years, presumably because of political clout. Now this is a scandal, because hospitals will get only 90% to 93% of the reimbursement they should get.

The Pattison/Katz study of California hospitals, recently published in the New England Journal of Medicine, said that "total operating expenses per patient-day were about 6% higher for the investor-owned chain hospitals than for the voluntary institutions." The authors claim it holds true, even adjusting for the generally shorter length of stay in investor-owned hospitals.

Jones: Investor-owned hospitals in California tend to be newer hospitals with lower occupancy rates. A lot of others are too small to offer a full range of services and therefore be competitive. When we bought the American Medicorp chain in 1978 they had 15 hospitals in California, most of which have never achieved an average occupancy of more than 50% because they were too small. We sold 10 of them over the last year, but they might be in the Pattison/Katz study. If

so, they are bound to be high-cost hospitals. It's a fixed-cost business, and if you don't get the volume, you get high costs.

All I can say is that, if you look at all of the places where we do business, we have a significant cost advantage, which is increasing. We're the lowest-cost provider in almost every market we're in, despite paying sales and property taxes. Our average cost advantage was 16.8% in 1981, up from 12% in 1980, and when the 1982 numbers come out it'll be even higher.

How do you accomplish that? You get discounts on quantity buying?

Jones: It's not just getting a lower initial purchase price, it's working out the lowest possible storage and distribution costs with our suppliers and sharing the economies with them in national contracts. And 95% of our medical supplies are on national contract, far more than anyone else. It's being able to centralize all that federal bill-processing to a much greater extent than anyone else.

It's also the discipline to determine, in the judgment of those being served, the best way of getting things accomplished. If it's diagnostic imaging, for example—or X rays, as we used to call

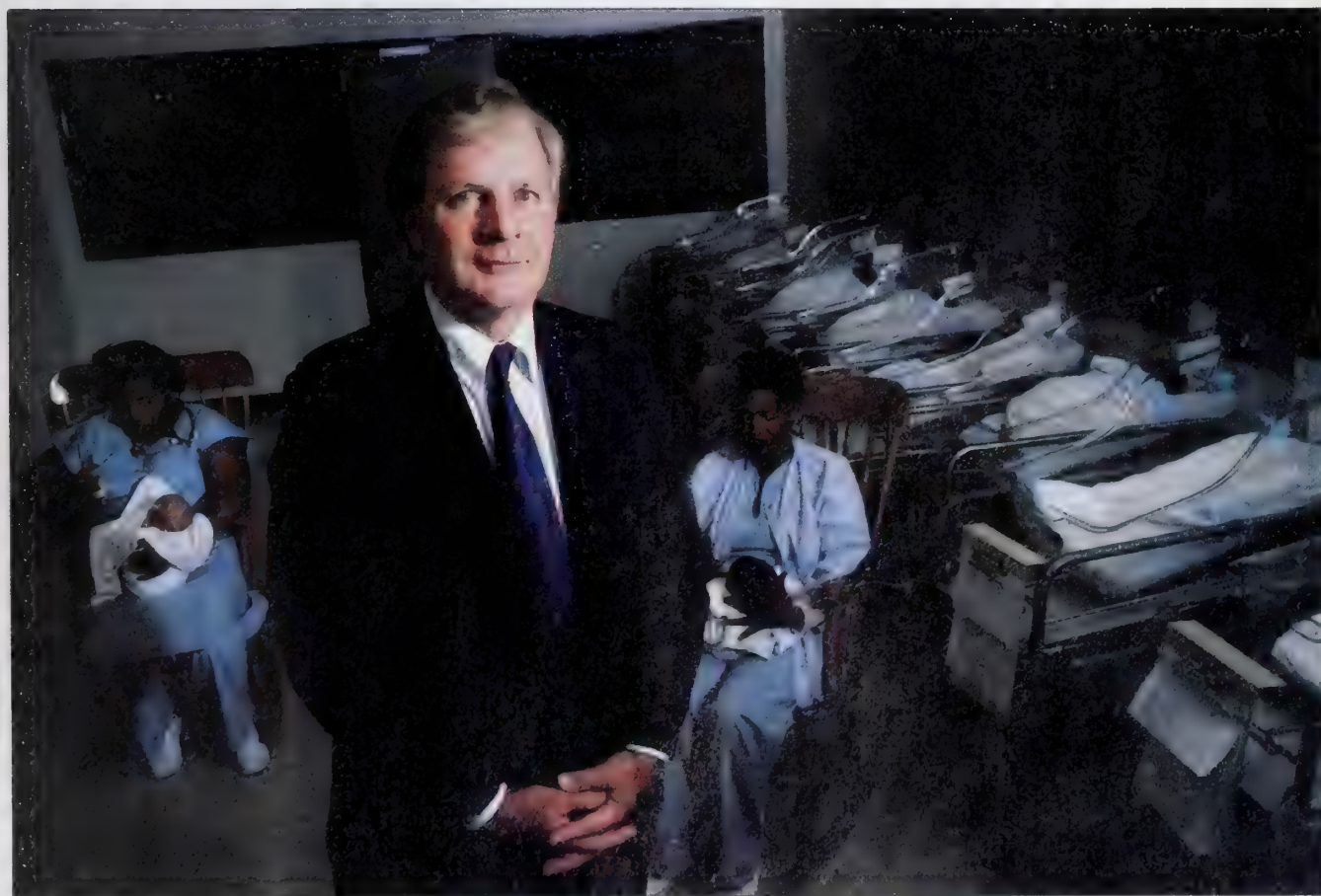
it before we had so many methods—you want a clear picture quickly. It's that simple. That is what the doctor, the patient and the insurance company want. Well, that means proper calibration of the machine and proper timing in the picture-taking by properly trained people. We can make sure that these simple things are done almost all the time. That's where centralized authority helps.

But your hospitals also have unusually high volume in the most lucrative services, like laboratory testing, don't they? At least, that's what the New England Journal study would suggest.

Jones: There's no service a hospital offers that's inherently profitable or unprofitable. It all depends on volume and price. And hospitals have no way that occurs to me to influence how many tests doctors order.

It's the government that is paying doctors to overutilize the health care system. Government rhetoric may say control health care costs, but government actions say spend all you can. The federal entitlements program is telling old people to go buy all the health care they can, that it doesn't cost them anything.

All this is the demand side of the

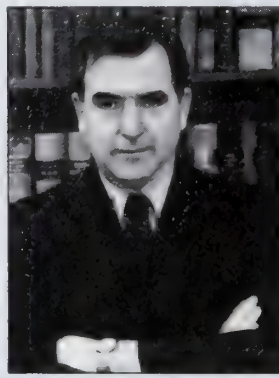


CEO David Jones of Humana

"It's more of a blessing than a curse. But it's still far from a blessing."

The doctor's rebuttal

Dr. Arnold Relman is hardly an impartial observer of investor-owned hospital chains. He is editor of the *New England Journal of Medicine*, whose Aug. 11 issue reports on a study in California indicating that, for all their claims, for-profit hospitals are actually less cost-effective than the so-called voluntary institutions. Dr. Relman, who teaches at the Harvard Medical School, is affiliated with not-for-profit hospitals and has written numerous articles and editorials attacking investor-owned hospital chains. What does he have to say about Humana CEO David Jones' contentions?



Dr. Arnold Relman: far from an impartial observer

"The fact is, there is no evidence whatever that for-profit chains, with all their vaunted administrative efficiencies and economies of scale, can operate less expensively than the not-for-profits," Relman says. Nor is the California study unique in this respect, he says; its results were virtually duplicated in studies in Texas and Florida.

Humana's Jones, says Dr. Relman, "has written me that his costs are 16.8% lower and improving. What I'm going to say to him when I reply is, 'Publish the data supporting that.' Any impartial observer of the data I've seen has to conclude that so far the costs of the for-profit hospitals have been at least as high as the not-for-profits and maybe a little higher, and their charges a lot more. Now, of course, there's been no economic incentive for them to keep their costs down. The question is, will they be able to control their costs now, when the incentive is there?"

equation. It has nothing to do with hospitals. In our system we don't do anything that would cause doctors to order tests, except to give them lots of information about what's happening.

We have a technology assessment group headed by a fellow named David Rollo, a Ph.D. physicist as well as an M.D., who has written over 200 books and articles and who is a world-class expert on diagnostic imaging. As a result of cosponsoring with Vanderbilt University the first seminar on digital radiography in the U.S., we outfitted our system with those machines before most hospital managers knew they were even coming.

The same is true of NMR—nuclear magnetic resonance—a radiation-free method of soft-tissue analysis. So it follows that a lot more testing is being done in our hospitals because other hospitals transfer their patients to where the technology exists.

Won't Medicare's new fixed rates eliminate testing that doctors order just, say, to ward off malpractice suits? Won't it cause a sharp reduction in your lab volume?

Jones: If you are being paid a fixed amount and you want to overspend in a certain area, then you just eat that

under DRG. But we think our outpatient volume from other hospitals will continue growing. So our laboratory strategy is to halve the price and double the quality and then tie it all together electronically.

Wouldn't it be safer not to bet on increasing volume and cut way back in laboratory testing? Then farm out any excess to independents?

Jones: I think it's going the other way. Many companies are moving away from zero-deductible insurance with a vengeance and allowing employees to participate in the cost of their health care through HMOs, health maintenance organizations.

I think what we're going to see happen is a vertical integration of the hospital industry and the insurance industry on a model that's something like the Kaiser companies [one of the first HMOs]. We're already shut out in some areas. That's why we are planning to introduce a new type of health insurance in late September. We're thinking of letting insured employees select their own physicians but requiring that facility utilization be within our network.

What about the old charge that for-

But aren't many of the costs of a hospital attributable to tests and services ordered by doctors, as Jones claims? Maybe, says Relman, but the fact is that for-profit hospitals do more of these tests than nonprofit hospitals. "And their charges are much higher—really exorbitant," he says. "Now, under Medicare's new fixed-rate reimbursement, how will the for-profits persuade their physicians to reduce the utilization of all those ancillary services? Particularly when it is not in the physician's interest to do so? Notice that up until now hospitals and doctors have had more or less the same interests: the more tests the better—as long as they got reimbursed. But now it is in the hospital's interest to do less for the patient. The doctor doesn't have that interest.

"One solution is to hire the doctors. If Humana doesn't want to do that, it will be interesting to see what economic incentive they can give doctors to cut down on those services."

As for whether there is likely to be an avalanche of acquisition opportunities for Humana and the other investor-owned hospitals, Relman thinks that is largely up to the government. "There's a growing crunch on teaching hospitals and the public hospitals, which have never been adequately paid for the care they give on Medicaid and other indigent, uninsured patients. The question is whether the government is going to recognize that or whether it's going to drive them out of business or into the arms of the for-profits."—G.S.

profit hospital chains like yours skim off the most lucrative patients and filter out the rest?

Jones: When a doctor joins the staff of a hospital, the hospital has to take all of the patients that he wants to admit. You can't say, "We'll take this patient and not that one." The idea that hospitals have any viable strategy for excluding patients just isn't true of an acute-care general hospital, and all but one of our hospitals are acute-care general hospitals.

With a sky-high debt-to-equity ratio of 1.7—one of the highest in your industry—can Humana cope with a sudden flood of acquisition opportunities if they materialize?

Jones: I don't see that as a problem at all. We have \$240 million in cash, an A rating and a debt-to-equity ratio that is the lowest it has been in the 22-year history of the company. I think we're exceptionally well poised to take advantage of any acquisition opportunities that may develop.

So, on balance, you say roll the DRGs and let's find out who the low-cost provider really is?

Jones: Absolutely. Should have done it a long time ago. ■



Consumer Orientation

No. 24 in a series

Subject: Design objective:
maximum performance,
not maximum production.

24

Porsche 944

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would mean to compromise the outstanding quality and performance that created the exceptional demand for this automobile in the first place.



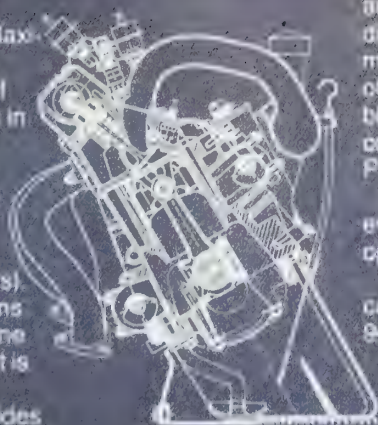
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an almost perfectly balanced front/rear weight distribution. This design requires drive train elements to be constructed as a single unit. Instead of as individual components. Difficult to assemble, it contributes to the exceptional handling, cornering and directional control unique to Porsche.

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Have you failed to find an investment philosophy that works? Then consider the thoughts of John Maynard Keynes. His investment ideas, only recently made public, have a surprisingly contemporary ring.

The original contrarian

By Lawrence Minard

WHATEVER ONE THINKS about John Maynard Keynes as an economist, most of us could do a lot worse than to follow his investment philosophy and practice. It's fairly well known that Keynes was a highly successful investor and speculator. What is little known is that his ultimate success stemmed, not from his economic theories or from any arcane or technical knowledge of financial markets, but from simple, old-fashioned contrarian fundamentalism. Keynes, it is clear, did not take seriously brokerage letters. Nor did he consort with market insiders. As an investor he was the quintessential amateur. For him investing was only one activity in an extraordinarily full life. He had an eye—perhaps nose is a better word—for value and a personal arrogance that made it quite easy for him to go firmly against the crowds,



John Maynard Keynes in a 1908 watercolor by Gwen Raverat

"My central principle of investment," he told a tiresome banker, "is to go contrary to general opinion. . . ."

including the supposedly well-informed crowd.

Keynes did not even begin serious investing until he was 36. As an investor he was entirely self-taught.

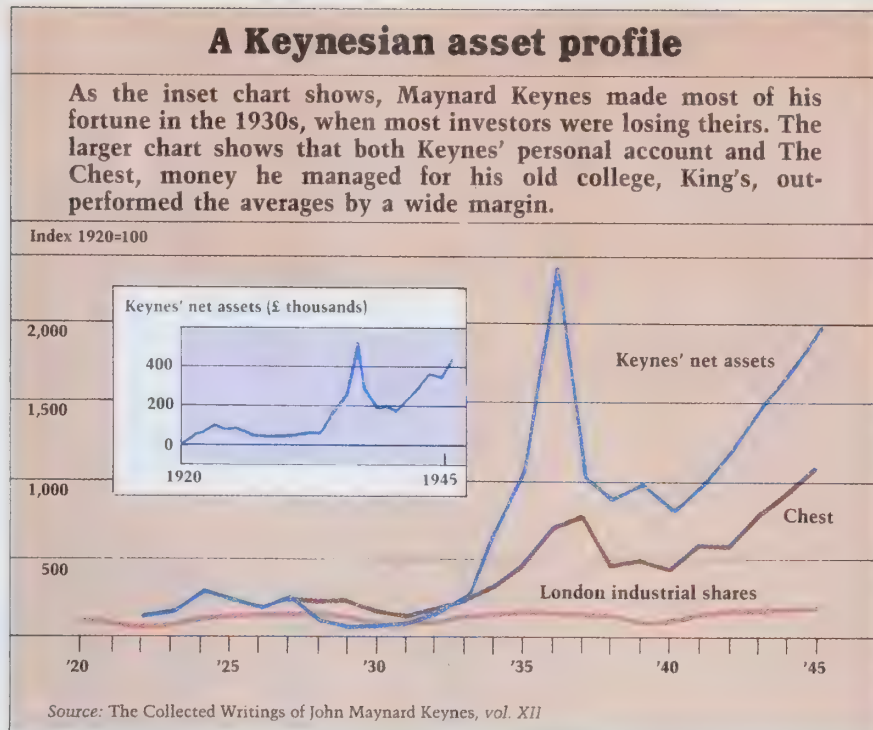
So, if it's an investment guru you are looking for, consider the great English esthete, economist and man of affairs. Thanks to a newly published volume of *The Collected Writings of John Maynard Keynes*, edited by Donald E. Moggridge (see box, p. 48), it is possible for the first time to understand Keynes' financial success and how it was achieved. His observations have an authenticity that make them equally applicable to the stock markets of the 1980s as to those of the 1930s and 1940s. Fashions and fads have changed, but investing psychology remains remarkably constant. The traps are in the same places. So are the rewards.

By playing the markets (mostly the stock and bond markets), Keynes increased his net assets from £16,315 in 1919 to over £411,000 in 1945, the year before he died. In today's purchasing power, he ended with the equivalent of around \$10 million, pretty impressive for a man who inherited a lot of culture but not much money. That's an annual compound growth rate of 13% in an era when neither the London nor New York stock averages doubled and when inflation was virtually nil.

Look at the chart above. The inset line represents Lord Keynes' net assets. It shows that Keynes accumulated his wealth in fits and starts, piling up assets in good markets and—he was no superman—giving back much of the pile in slumps. Ten steps forward, five steps back.

That jagged line reflects an investor of enormous ego and iron will. Four or five securities, Moggridge tells us, typically made up half of Keynes' portfolio, which Keynes typically turned over at least once a year. As befits a man convinced of his judgment, Keynes' portfolio was, until a few years before he died, leveraged to the hilt. In 1929, for example, when Keynes' net assets reached a nadir of £7,815, his margin debt came to £14,000. In 1936, when Keynes was worth over £506,000, debts came to nearly £300,000. This combination of enormous leverage and concentrated share ownership meant Keynes fared far less well than the broad market averages in down markets, but far, far better in up markets.

Keynes made his first investments, £161 worth, in 1905, at age 22. But it was not until he left His Majesty's Treasury in 1919 that he became a



serious player. He accumulated his grubstake capital in a few months, speculating in foreign exchange. But in 1920 the currency markets went against him and wiped out Keynes' assets and those entrusted him by his parents, siblings and such Bloomsbury set luminaries as Vanessa Bell, Roger Fry and Duncan Grant.

Undeterred, Keynes borrowed £5,000 from financier Sir Ernest Cassel, took an advance on *The Economic Consequences of the Peace* and plunged deeper into the same positions that had wiped him out. By 1922 his net assets had rebounded from minus £8,587 (including £6,750 in "moral debts," the diminished capital of his family and friends Keynes felt obliged to make good) to plus £21,588.

During most of his investment career, Keynes speculated in foreign exchange and commodities. As Volume XII of *The Collected Writings* shows, Keynes had a firm grasp of the statistics covering the latter. Nor was he above trickery when pressed (see box). But Keynes, like most investors, usually lost most of what he made in the currency and commodity speculations. It was in common and preferred stocks and bonds, in London and New York, that Keynes made his money.

How did Keynes do it? By his very temperament Keynes was a contrarian. He was an intellectual loner who trusted his own judgment and scorned the herd's. He believed that capital markets were ultimately efficient and rational but that from time to time waves of irrationality would

create opportunities for the quick-witted few who were courageous enough to defy convention. "My central principle of investment," wrote Keynes in 1944 to a tiresome fellow money manager for Keynes' old school, Eton, "is to go contrary to general opinion, on the ground that, if everyone is agreed about its merits, the investment is inevitably too dear and therefore unattractive."

Keynes' greatest investment coups came during the period 1929-1936, when he multiplied his net worth by 65 times. This, mind you, right smack in the midst of the worst depression of modern times. Keynes understood that the fear created by the economic slump had grown far out of proportion to the slump itself. Other fortunes were made at this time—in Wall Street, Floyd Odum comes quickly to mind—but not many. It took extraordinary self-confidence to shake off the pervasive lethargy that followed the resounding crash of 1929 and the subsequent worries that the capitalist system was doomed. The mob, which had time only for optimism in the late 1920s, had time only for gloom in the 1930s. Wrote Keynes in February 1931 to the board members of the National Mutual Life Assurance Society, of which he was chairman from 1921 to 1938:

"Just as many people were quite willing in the boom, not only to value shares on the basis of a single year's earnings, but to assume that increases in earnings would continue geometrically, so now they are ready to esti-

The Money Men

mate capital values on today's earnings and to assume that decreases will continue geometrically." Keynes understood that financial markets are manic-depressive. He would not have been surprised to learn that oil drilling stocks, in tremendous demand at huge multiples of book value in 1980, would go begging at substantial discounts from book in 1982.

It was in Wall Street, where the gloom was thickest, that Keynes found his best values. By 1934 over 20% of his money was committed there. The Dow industrials were under 100 during most of that year. Within two years they had doubled.

Like a small number of other astute, contrarian investors, Keynes was especially intrigued in the early and mid-1930s by the preferred shares of the big utility holding companies. These giant pyramids were under a death sentence from the New Deal; they had been shaken by the Insull empire's collapse and by that magnate's subsequent flight to Greece. Nobody wanted the stocks even though there was considerable value behind them. Buying such shares in 1934 was like buying Chrysler at 3 in 1982: cheap, but why even bother? Of them Keynes wrote in 1933: "They are now hopelessly out of favor with American investors and heavily depressed below their real value." National Power & Light, long since liquidated, he noted, yielded 15%, was awash in cash, earned 5 times its preferred dividend and was beginning to increase earnings again. How could he lose?

What about the inflation that Franklin Roosevelt was about to create? Keynes: "I am at a loss to see how the inflationary programme of the President is really injurious to stocks of this character. For any rise of prices which he engineers will necessarily increase the proportion of equity cover behind the preferred claim."

But Keynes was under no illusion, notice, that he could predict the near-term course of the economy or even the near-term course of earnings. And he recognized that—then as now—most investors were mesmerized by the near-term to the virtual exclusion of the long-term. He wrote in 1940:

"Very few American investors buy any stock for the sake of something which is going to happen more than

six months hence, even though its probability is exceedingly high; and it is out of taking advantage of this psychological peculiarity of theirs that most money is made."

Visiting Wall Street in 1931 (and again in 1934), he was amused to note that ice stocks—a typical consumer disposable-goods industry in those days before air conditioning—tended to rise in early summer in anticipation of rising demand for the product. Keynes would have felt at home this month as U.S. defense stocks jumped on news of Russia's destruction of a South Korean airliner.

Over and again Keynes reminds his associates that stocks fluctuate, that serious investors must roll with the fluctuations and not panic—if, to take

descend over Europe. First, a terrible depression. Now the ultimate conflagration. Capitalism, even civilization, looked doomed. But Keynes wrote: "Nine times out of ten the extremes of misfortune do not occur." Characteristically, Keynes informed the Provincial Insurance Co.'s Francis Scott that he wanted to reinvest proceeds from sales on the relatively buoyant New York market in the fear-ridden London market.

"I agree with you that [the London market] may easily go lower," wrote Keynes. "It is at present friendless. . . . The result is that the very prime industrials which have usually looked too dear can now be got to yield 7% or better. Taking a long view, I believe we ought to have them. If we try to hit the bottom, we shall certainly not get them." One is tempted to think that Keynes would have been buying in the spring of 1982, while the bottom-fishing majority was still awaiting the selling climax that never came. Among Keynes' specific recommendations were British electric utility shares, "which are being valued on the basis that because people will be cutting their use of current for the time being they will do so permanently."

It was like 1930-1936 all over again. From 1939 to 1945, Keynes' net assets more than doubled, to £411,238. They probably would have increased by far more had Keynes not cut back sharply on his margin debt (after 1939, it averaged less than 12% of net assets, vs. over 100% in the early 1930s).

In Keynes' day, as today, it was axiomatic that prudently managed portfolios were widely

diversified portfolios. Safety, as it were, lay in numbers. Keynes took an exactly opposite approach. A few securities often accounted for half of Keynes' portfolio. In 1931 shares in Austin Motor and British Leyland accounted for nearly two-thirds of Keynes' holdings.

"You won't believe me, I know," wrote Keynes in 1940 to Francis Scott, "but it is out of these big units of the small number of securities about which one feels absolutely happy that all one's profits are made. . . . I am sure I could pick out six of my pets, and that much more than the whole of our profit would have been made out of them. . . . Out of the ordinary mixed bag of investments nobody ever makes anything."

How could holding relatively few



Bloomsbury luminaries (clockwise from top left): Virginia Woolf, Lytton Strachey, Vanessa Bell and Roger Fry

a fanciful example, a cool summer were to put ice shares out of favor. He noted: "I do not believe that selling at very low prices is a remedy for having failed to sell at high ones."

In January 1928 Keynes owned 10,000 Austin Motor Car shares at 21 shillings (\$5.09) each. Within months Austin had dropped to 12. By 1929 it was worth 5. But Keynes refused to sell—until April 1930, when he sold 2,000 shares at 35 shillings each.

The worse the news, the better Keynes liked to buy. In September 1939 the markets were reeling from the ultimate in bad news: world war; the Germans had attacked Poland, whose horse cavalry tried vainly to stop invading tanks. How long before England itself, virtually disarmed, would fall? A long night was about to



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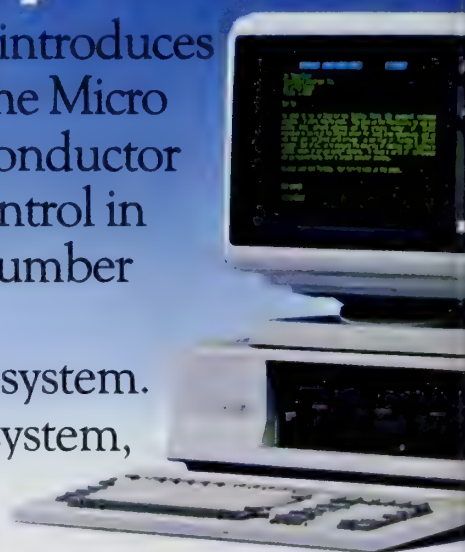
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The Money Men

securities possibly be less risky than holding many? The answer, argued Keynes, was simple. A cardinal secret of successful investing was knowledge about one's investments. Yet how could ordinary mortals know very much about very many companies? According to Keynes, they couldn't.

"I am quite incapable," he wrote, "of having adequate knowledge of more than a very limited range of investments. Time and opportunity do not allow more. Therefore, as the investable sums increase, the size of the unit must increase. I am in favor of having as large a unit as market conditions will allow, and, apart from a small group of securities, this generally means a smaller unit than would be made necessary by the size of the investable fund."

In March 1938, recovering from a heart attack, Keynes prepared an investment postmortem for his friend Francis Scott, in which he explained the superior results of The Chest, a fund he managed for his old Cambridge college, King's (see chart, p. 43). Keynes: "To carry one's eggs in a great number of baskets, without having time or opportunity to discover how many have holes in the bottom, is the

surest way of increasing risk and loss."

Four years later, in January 1942, Keynes was again defending his few-baskets policy, this time with facetious self-degradation:

"My Dear Francis [wrote Keynes], Sorry to have gone too large in Elder Dempster. But, finding a security which was good, which we had not got and of which a large block could actually be purchased... I lost my head. I was also suffering from my chronic delusion that one good share is safer than ten bad ones, and I am always forgetting that hardly anyone else shares this particular delusion."

Gleefully, he added: "The price has, I think, now gone up about 6d., so you can get rid of any surplus without loss that you would like to."

Note that Keynes did not confuse conservative investing with timid investing. His willingness to go heavily on margin shows this. So does his preference for concentrating on a few stocks. He believed that taking apparent risks was the best way of avoiding losses. Wrote he: "Another important rule is the avoidance of second-class safe investments, none of which can go up and a few of which are sure to go down. This is the main cause of the defeat of the average investor."

Nor did Keynes hold to another popular investment theory of the day: that

a fixed percentage of a portfolio should be held in different types of investments—one-third in stocks, one-third in bonds, one-third in real estate, for example. Such a "strategy," scoffed Keynes, was the opposite of a strategy. It simply hobbled an investor.

"The whole art [of investment]," wrote Keynes to the Provincial's Scott, "is to vary the emphasis and centre of gravity of one's portfolio according to circumstances. Subject to a minimum in government securities and a maximum in ordinary [i.e., common] shares I would strongly urge the desirability of the greatest possible flexibility."

To maximize his flexibility, Keynes prized liquidity. The fact that he could always get out of a quoted stock made stocks, in his opinion, far superior to real estate, which then, even more than now, was thought of as a can't-lose type of investment. Editor Moggridge notes that throughout the 1920s and early 1930s Keynes liquidated real estate—around £200,000 worth. In July 1945 Keynes again wrote Scott: "I should say that we are considerably more liquid than most insurance companies, since we have so much less in real estate, mortgages and other sticky stuff."

Keynes did, however, recognize that liquidity exacted a psychological price that few investors are able to bear. By definition, the price of liquid assets is always available: Over the morning coffee your spirits can droop or soar, depending on how yesterday's market closed. As a result of these readily available quotations, said Keynes, successful equity investing required almost superhuman willpower. It required absolute self-honesty. Here is how Keynes put it in a 1938 memorandum to the Estates Committee at King's College:

"Some Bursars will buy without a tremor unquoted and unmarketable investments in real estate which, if they had a selling quotation for immediate cash available at each Audit, would turn their hair gray. The fact that you do not know how much its ready money quotation fluctuates does not, as is commonly supposed, make an investment a safe one." Keynes added: "[It] is true, unfortunately, that the modern organization of the capital market requires for the holder of quoted equities much more nerve, patience and fortitude than from the holder of wealth in other forms."

Keynes' success makes a mockery of the practice, followed by many Wall Street houses, of drawing up economic projections and then drawing investment conclusions from them.

The day Keynes' ships came sailing home

For most of the material in this article, I am indebted to the newly published *Economic Articles and Correspondence: Investment and Editorial*, which is volume XII of *The Collected Writings of John Maynard Keynes* (Macmillan: Cambridge University Press for the Royal Economic Society, 1983, 896pp., £22). The book has been beautifully edited by Cambridge University's Donald E. Moggridge.

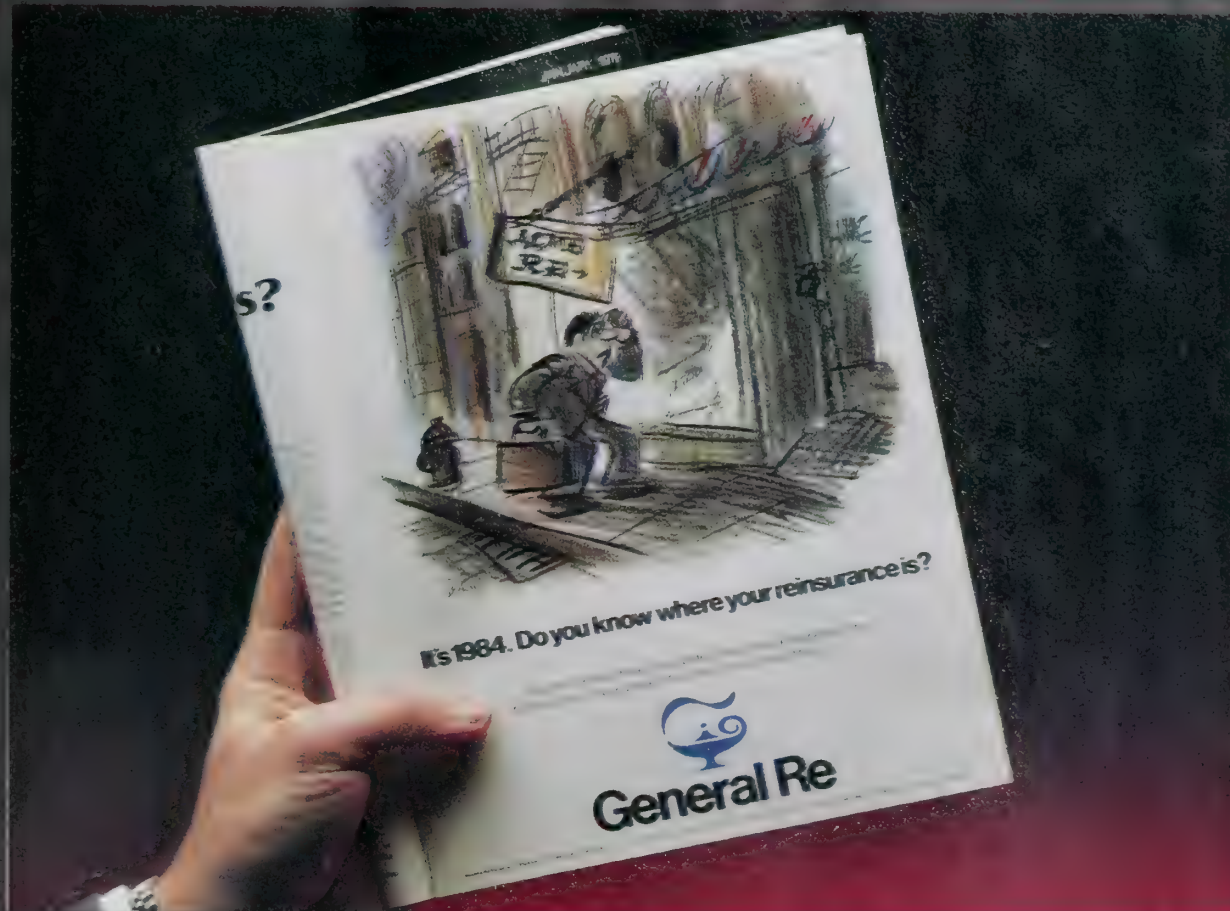
In his notes to the volume, Moggridge refers to the famous incident in 1936 when Keynes was speculating in wheat. He had gone long enough wheat to supply England for a month, but the market was falling and the ships bearing the wheat rounded Ramsgate and entered the Thames. Keynes traveled up to King's College, Cambridge, in whose chapel Keynes planned to store the grain if he took delivery. But the chapel was too small by half.

Keynes hit upon a slightly treacherous, but highly efficient,

solution. He knew he was under no obligation to accept "dirty" cargoes. He also had guessed that his wheat, which was bound from the Argentine, would be dirty. And he knew that London's cargo cleaning facilities were already utilized. As his ships docked, he demanded that their cargoes be inspected. Reports Moggridge's witness, Ian Macpherson, a stockbroker whose firm handled most of Keynes' transactions: "As usual, Keynes was absolutely right in his opinion: Every cargo had to be cleaned; it took over a month to clear the position; I understood at the time with no loss or profit to him."

However many unrealistic absurdities his followers may have inflicted on the world, no matter how wrong so many of his assumptions were, Keynes clearly knew how the world worked, and this, as much as anything else, may explain how quickly and easily his ideas became accepted and respected by practical men.—L.M.

Tempus Fugit



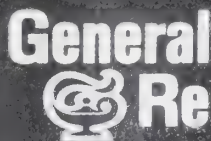
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Why so many Mercedes-Benz automobiles have achieved classic resale value—before they were old enough to be classics.

Each of the Mercedes-Benz automobiles in the picture at left has been shown to be actually worth more money today than the day it was new.

What makes this fact astonishing is that each is a production model and far from rare. And each was built in 1971—little more than a decade ago.

Astonishing consistency

The astonishingly consistent Mercedes-Benz legend of retained value is thus enhanced. A legend composed not just of a few exotic models, so rare and so old that their value could be expected to rise higher as the years pass by, but models you can see on the streets and highways of America every day—such as those in the picture at left.

True, the most money ever paid for a production automobile was paid for a Mercedes-Benz—a 1936 500 K Roadster, auctioned in 1979 for four hundred thousand dollars. And the experts can cite numerous other Mercedes-Benz models now worth double, triple, quadruple their original selling prices.

But these same experts can attest to the remarkable overall record compiled by *all* Mercedes-Benz automobiles—sedans as well as coupes and

roadsters, diesels alongside their gasoline-powered counterparts; from the recent past as well as the distant past. A record that is perhaps best expressed in one simple statement: the Mercedes-Benz name is so coveted by American buyers today that after the first three years, the *entire Mercedes-Benz line* has been shown to retain an average of 80 percent of original value.

Some individual models from some makers might possibly match this figure. In so doing, they only underscore the point: the Mercedes-Benz legend is not based on *some* cars, but on the total resale performance of all models in the line.

Minimal depreciation

The net result has been a series of automobiles so desirable to so many people that their value has refused to tumble—refused, indeed, to more than minimally depreciate as the miles and years have gone by.

Perhaps this is because there have never been quite enough Mercedes-Benz automobiles to satisfy America's demand.

Perhaps it is because their value has never been cheapened

by annual model changes, or face-lifts, or marketing artifice of any kind.

Perhaps—as the engineers would claim—it is simply because they are built to uncommon standards, to serve their owners uncommonly well.

A crucial measure

Not even Mercedes-Benz knows the reason to an absolute certainty. And not even Mercedes-Benz can predict the future course of resale value in this uncertain, unpredictable world of ours.

But that resale value stands as a crucial measure of automotive worth is beyond question. And amid the welter of claims and counterclaims about value retention in the marketplace today, the lessons of Mercedes-Benz resale history—*recent* resale history—cannot be discounted by any automobile buyer. And they should not be ignored.



Engineered like no other car in the world



Clockwise from top: 300 SEL 6.3 Sedan, 280 SL Roadster, 280 SE 3.5 Coupe, 280 SE 3.5 Convertible, 250 CE Coupe, 280 SE Sedan.

The Money Men

This might be called "The Henry Kaufman thinks, therefore . . ." school of investing. This is, essentially, a market-timing device. Keynes, though an economist by trade and training, soon learned the folly of market timing based on economic cycles—or on anything else but mass psychology.

In his earlier investment career Keynes did try to adopt his own theories to investment selection. It was a bust. He tried to make use of the cycles that resulted from what in *The General Theory* he called "liquidity preference." In essence, liquidity preference simply meant that as interest rates rose, investors would become increasingly nervous holding shares and increasingly interested in holding liquid money. The reverse would happen as interest rates fell.

Early on Keynes believed he could predict market cycles: He could profit by buying a few good shares in rising markets and selling them when markets fell. Keynes called this liquidity-preference-based investment theory "credit cycle policy" or "credit cycling." "By credit cycling," he wrote, "I mean buying and selling according as you think shares cheap in relation to money." In 1938 he wrote to fellow Cambridge economist and close friend Richard (now Lord) Kahn:

"I can only say I was the principal inventor of credit cycle investment and have seen it tried by five different parties acting in detail on distinctly different lines over a period of nearly 20 years . . . and I have not seen a single case of a success being made of it. . . . Credit cycling means in practice selling market leaders on a falling market and buying them on a rising one, and, after allowing for expenses and loss of interest, it needs phenomenal skill to make much out of it." Skill that Keynes recognized he and few, if any, mortals possess.

Scarred and, in a sense, humbled by the macroeconomic unpredictability of markets, Keynes confessed it was his ability to pick individual stocks—a microeconomic activity—that explained his investment success. Rather than try to predict fluctuations with liquidity preference and credit cycle theories, he would simply recognize that stocks and markets would vacillate between extremes of optimism and pessimism and try to profit from these swings. Keynes: "It is largely the fluctuations which throw up the bargains and the uncertainty due to fluctuations which prevents other people from taking advantage of them."

Glowing in this epiphany, Keynes proceeded to distill a career's worth of investing wisdom. Keynes: "I believe now that successful investment depends on three principles:

"(1) a careful selection of a few investments (or a few types of investment) having regard to their cheapness in relation to their probable actual and potential *intrinsic* value over a period of years ahead and in relation to alternative investments at the time;

"(2) a steadfast holding of these in fairly large units through thick and thin, perhaps for several years, until either they have fulfilled their promise or it is evident that they were purchased on a mistake;

"(3) a *balanced* investment position, i.e., a variety of risks in spite of individual holdings being large, and if possible opposed risks (e.g., a holding of gold shares amongst other equities,

since they are likely to move in opposite directions when there are general fluctuations)."

Sounding for all the world like his contemporary, the great Benjamin Graham, Keynes concluded: "It is a mistake to sell a £1 note for 15 shillings in the hope of buying it back for 12 shillings 6d., and a mistake to refuse to buy a £1 note for 15 shillings on the ground that it cannot really be a £1 note (for there is abundant experience that £1 notes *can* be bought for 15 shillings at a time when they are expected by many people to fall to 12 shillings 6d.)." Two years later he wrote Scott: "I am still convinced that one is doing a fundamentally sound thing, that is to say, backing intrinsic values, enormously in excess of the market price, which at some utterly unpredictable date will in due course bring the ship home." ■

Personal computer software companies are starting to queue up to go public. What should investors look for?

Caution for lotus-eaters

By Roger Neal

THE ALLURE of micro (translate: personal) computer software for Wall Street is obvious. The industry's retail sales, an estimated \$1.4 billion in 1983, are growing 40% annually. At that rate sales could hit \$7 billion in 1988. That makes micro software the fastest-growing segment of the computer biz.

Not surprisingly, several software companies are expected to go public soon. One, Cambridge, Mass.-based Lotus Development Corp., has already filed and may raise up to \$39 million. "The market," says Alex. Brown & Sons partner Alfred Berkeley, "is clearly interested in the growth that's available." "Clearly interested" is an understatement. Lotus is expected to come out at something

like 30 times projected 1983 earnings.

But beware of the lotus-eaters' euphoria. Robert Cummings, partner in charge of venture capital for Robertson, Colman & Stephens, one of Lotus' underwriters, warns: "A lot of money will be lost on low-quality software stocks."

What does the determined investor look for in micro software stocks? Here's a quick guide:

1) Accounting practices. Before examining the bottom line, check how software development costs are handled. Conservative companies expense development costs immediately. But aggressive companies have tended to capitalize their costs, writing them off over three to five years. This inflates earnings. For Comserv, a public mainframe software company, development was capitalized and

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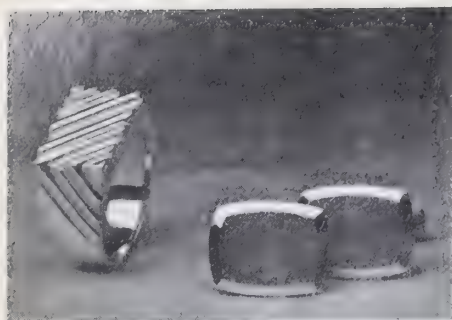
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written off against earnings over four to six years. Had it expensed development, Comserv's net loss for the latest six months would have been \$4 million, not the \$2 million it reported. (Last April the SEC declared a moratorium on capitalizing software development until the Financial Accounting Standards Board rules on the matter next year.)

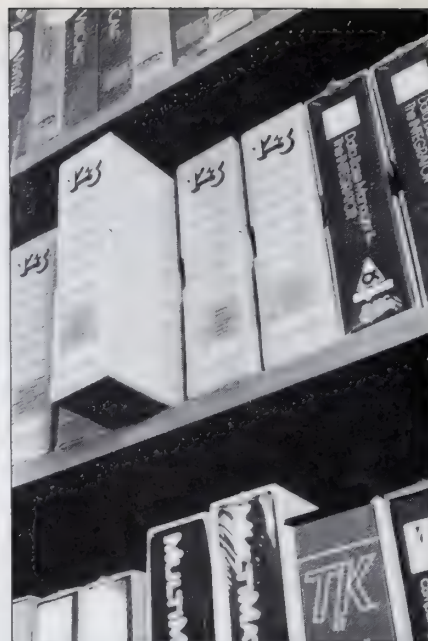
Earnings may also be inflated if a company purchases programs from third-party software writers and amortizes part of that cost (nonasset development costs) as goodwill over 30 or more years.

2) Product line. "You want as proven a product as you can get and a well-thought-out line of products," says Alex. Brown & Sons' Berkeley. "One-hit" companies such as Stoneware and Fox & Geller are to be avoided. Why? As with one-artist record companies or one-author book publishers, a single-program software company is especially vulnerable to market shifts. The life of a program is short, generally two years for a hit program. One hit is little to bank on. There are exceptions. Lotus is a single program company, as well. But its program, the bestselling 1-2-3, is one of the first "integrated" packages (combining spreadsheet, database management and graphing capability). Such combination packages are considered by the industry to be the current direction of software. This makes Lotus more desirable, in some analysts' eyes, than other one-product companies.

Generally, however, look for companies with two or more hits. Names of such companies include Ashton-Tate and Software Publishing. But even a solid product line won't eliminate all risk. VisiCorp, creator of the very successful VisiCalc, still has four programs on Softsel's list ranking the top 35 business programs. But VisiCorp's own integrated package, VisiOn, is long overdue. The delay has to be costing market share.

3) Marketing. As shelves become crowded, marketing is becoming critical. "It's a soap and detergent marketing game," explains Perry Traquina, analyst with Wellington Management Co. Since its inception in 1982, Lotus has devoted only 7% of revenues to 1-2-3's development, but 37% for marketing and sales. Competition must boost marketing costs.

4) Distribution. Because shelves are crowded, companies should also have multiple channels of distribution. "There are just not enough retail outlets," says Chris Yalonis of the micro-computer market research firm Creative Strategies. By selling to both



Lotus Development's 1-2-3

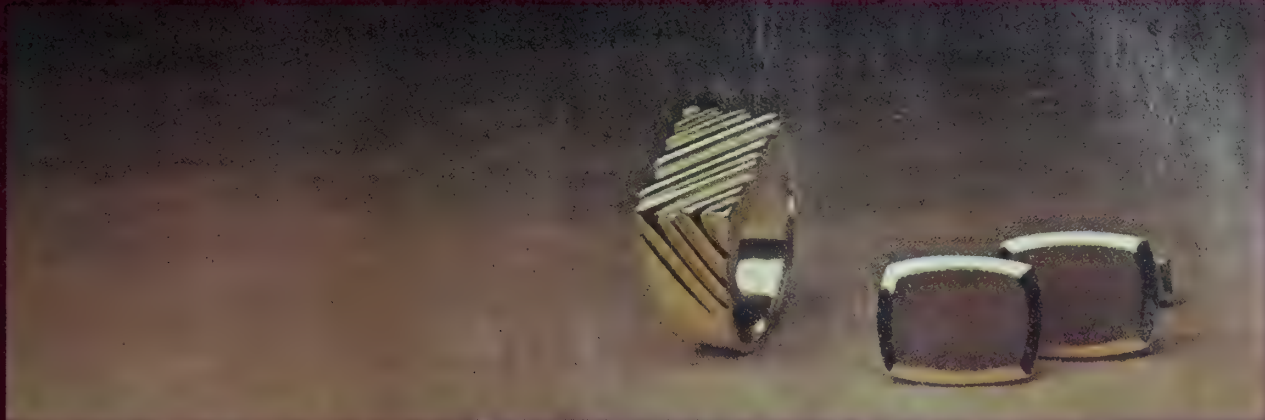
Fighting for retail shelf space.

original equipment makers (such as IBM, DEC or Televideo) and retail stores, a company spreads the risk of its product losing shelf space to a competitor.

5) Pricing. Older programs are now facing stiff competition, and price cutting has been the result. Spreadsheet programs similar to VisiCorp's VisiCalc, which fetches \$250, are selling for as low as \$50. The same is happening to word processing programs. Micropro's Wordstar, the industry leader, is priced at \$495 but now faces competing word processing packages selling for as low as \$60. Says Nathan Schulhof, president of Silicon Valley Systems: "Software is following the same path toward price-cutting that hardware has taken." Since he halved the price of his "WordHandler" word processing program in August, Schulhof says shipments have increased four or five times. This threatens margins for established software companies.

Also driving down prices is the practice of "bundling," by which large quantities of programs are sold to computer hardware makers at a discount of 70% and up from the retail price. The hardware makers throw in the programs so that buyers of their computers can have some software in hand when they get their hardware home. Bundling can help the program makers' market share, but it may also destroy profit margins.

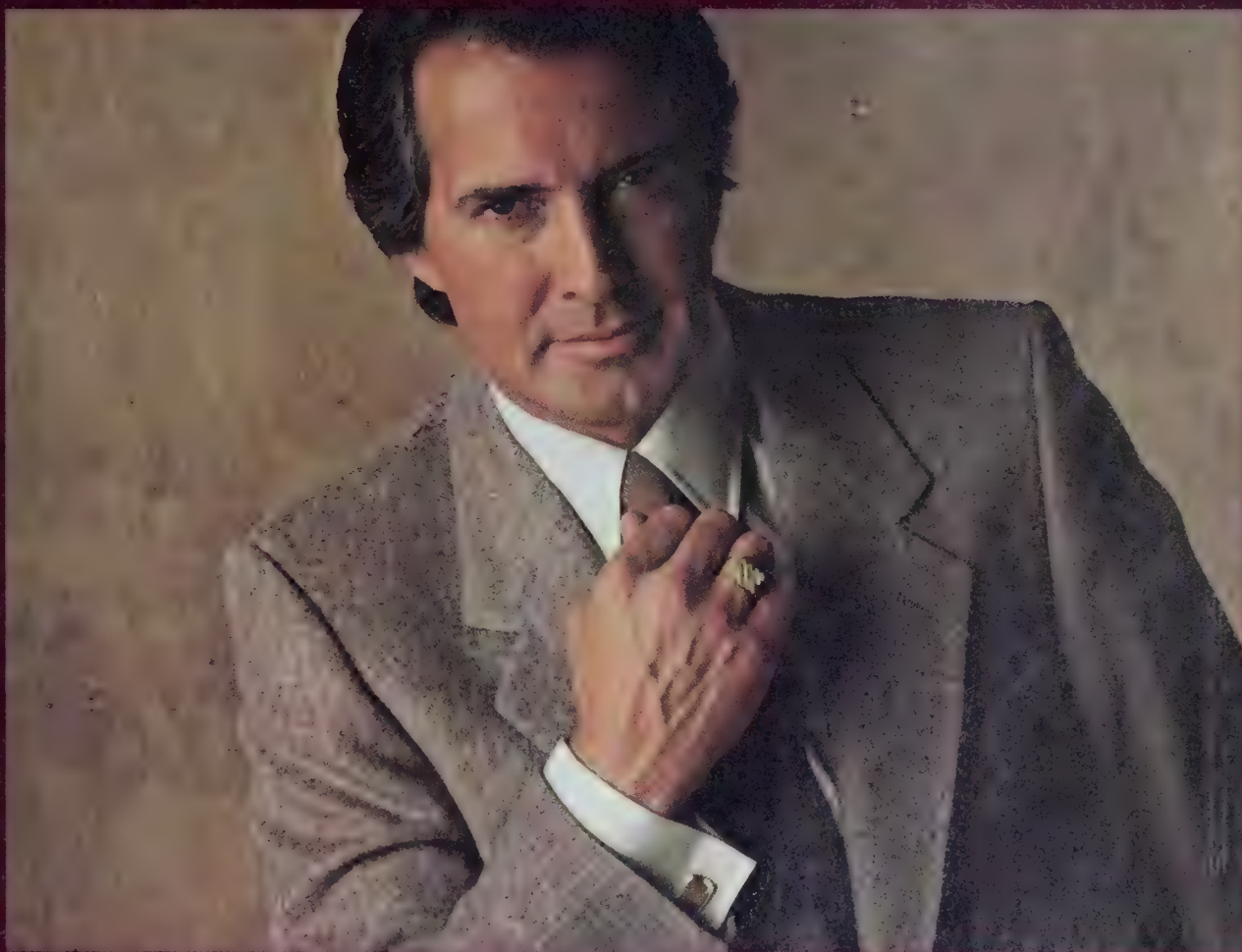
All told, then, intelligent investors will remember that, for all its dreamy promise, the real-world software business is no lotus land. ■



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Will Rodzewich, student, talks about his father, chemist with Henkel's Amchem Products, Inc., Ambler

“Dad’s work at Henkel taught me a lot about winning.”

“A winner sees an answer for every problem, a loser sees a problem in every answer.’ That’s what my football coach always told us, and by that definition, my dad is a winner.

As a chemist in Research and Development with Amchem Products, a division of Henkel Corporation, dad faces a lot of situations where it would be easy to lose. It’s his job to come up with products that prepare metal to accept paint, and keep that paint on through the worst kind of environmental and wear circumstances. And the problem is compounded by customer plant conditions, and the state of the raw metal, and many other factors. Whatever kind of problem it may be, dad always seems to come up with the answer. That’s why dad travels so much – within the U.S. and in foreign countries as well. He goes to customer plants all

over the world to solve their metals treatment problems.

One of his trips was to a Henkel company in Germany which had been licensed to use Amchem’s technology more than twenty-five years ago. So when Henkel acquired Amchem in 1979, dad said, ‘it’s a natural combination’. I think he was right. Since acquisition by Henkel, Amchem has expanded and so have dad’s responsibilities.

Anyway you look at it, my dad’s a winner, and I think that helped me work harder at being a winner in football. And it surely won’t hurt me in my plans to become a mechanical engineer.”



My dad, Ed Rodzewich

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"There's a boom in tax shelters," promoters proclaim. However, dear readers, that's part of their game. In a manner resembling the emperor's new clothes, There's less to this boom than the naked eye shows.

News from the shelter front

By Laura Rohmann

YOU'VE READ ALL ABOUT how this is a bumper year for tax shelters. You may even have been approached by a salesman encouraging you to join the rush of folks eager to cut their tax bills. The numbers being bandied about are indeed impressive. Some \$14 billion worth of publicly registered tax shelters are being offered right now, and the industry racked up \$4.8 billion in sales during the first seven months of this year.

That's a gain of some 75% over 1982.

There is, however, considerably less to this boom than meets the eye.

A large portion of what gets lumped into these glowing sales figures doesn't involve conventional tax shelters at all. Much of what appears to be growth shows up because people are buying limited partnerships to put into their IRAs or Keogh plans.

This can make sense, even if it distorts the statistics. IRAs and Keoghs are tax-exempt to begin with, and so are partnerships. The income from them simply flows through to the partners' individual tax returns. Result: Put a partnership asset into an IRA and, voilà, there's no tax at all.

But the kinds of partnerships that go into retirement accounts don't involve the high writeoffs or flaky business ventures that are common among tax shelters. Instead, they are usually straightforward high-yield investments like commercial real estate

or producing oil wells. "None of these income deals were moving in 1980," says Robert Stanger, editor of the *Stanger Report*, a tax shelter newsletter. "Now they account for nearly half of all tax shelters sold and about 12% of all IRA contributions."

Draw two conclusions here. First, if your accountant tells you to buy a tax shelter for your IRA, he isn't necessarily crazy. Second, if a shelter promoter tries to push all sorts of exotic investments on you and claims they are part of a nationwide trend, think twice. He may be on the wrong bandwagon.

Suddenly respectable

Net-leasing tax shelters are a nifty way for corporations to raise cash inexpensively and give limited partners tax breaks. They work like this: A corporation is buying or building a new facility but can't or doesn't want to spend its cash. So a limited partnership arranges to buy the building and lease it to the company. The limited partners get a lease income, as well as interest and depreciation deductions. The corporation, which covers all operating expense, gets full use of the building and its cash.

Sounds like a good deal, right? Continental Insurance and Mellon Bank thought so. Both have deals to lease new corporate headquarters from private placement limited partnerships with offerings of tens of millions of dollars. "Net leasing shelters are selling like hotcakes right now," says Warren Shine, chairman of Ernst & Whinney's tax shelter committee. "I can give you a handful of

examples that involve a billion dollars in property."

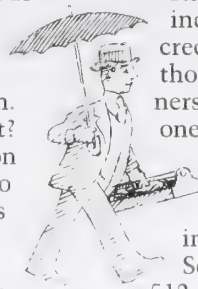
But net-leasing arrangements have been possible for years. Why the rush now? "Traditional thinking said selling a corporate asset was one step removed from a bankruptcy," says William Bush, a managing director at Blyth Eastman Paine Webber. "But when safe harbor leasing came out on equipment, all of a sudden the sale of tax benefits was legitimized. In fact, there's a school of thought that anyone who didn't take advantage of those deals was almost negligent."

Accelerated depreciation and better distribution of the deals also made them more attractive, says Bush. But mainly it was a matter of self-esteem and appearances. No one wants to feel like Rodney Dangerfield.

Not enough of a good thing

Congress created tax incentives for the rehabilitation of historic buildings in 1976. But when the Economic Recovery Tax Act of 1981 increased the investment credit to 25%, it looked as though rehabilitation partnerships would soon become one of the more popular shelters around.

There has been a surge in activity. According to the National Park Service, there were only 512 historic rehabilitations that qualified for the credit during 1977 and 1978. Total value: \$140 million. By 1982 more generous deductions had helped push the figure to



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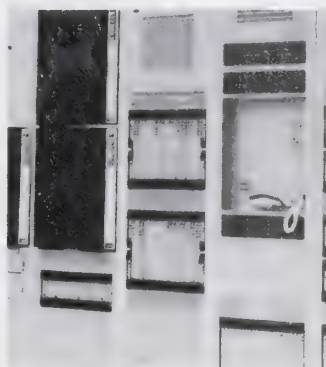
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Taxing Matters

\$1.1 billion, and filings for fiscal 1983 already exceed that amount.

Even with this growth, however, these shelters are not offered publicly as often as syndicators had hoped. Buildings that qualify for the fat deductions are usually small, and contractors often keep the tax credits themselves rather than give anyone else a piece of the action. When a deal is really good, nobody wants to share.

Limited Partners take on Japan, Inc.

There has been a lot of talk lately about relaxing the antitrust laws, removing exclusions on the 25% research and development tax credit and encouraging the careful formation of limited partnerships to pay for R&D ventures between competing corporations. The idea is to increase the flow of research funds so U.S. firms are better equipped to face foreign competition. But some tax shelter experts think these deals will be slow in coming—and even after they get here, you may want to stay away.

The intentions are good. "On average it takes seven to ten years for a product idea to get to the stage of commercial development," says D. Bruce Merrifield, assistant secretary of commerce for productivity, technology and innovation, author of the Commerce Department's proposals to promote joint R&D ventures. "Only 1 out of 20 projects ever produces a positive cash flow. That's why it's important to have tax incentives to encourage R&D."

These, however, are fairly long odds for limited partners. True, every deal varies. Joint ventures among large corporations, for example, could probably be considered less risky than startups. But, says Arnold Rudoff, publisher of *Limited Partners Letter*, "R&D partnerships certainly don't have a record of success to date. And the big deals can be as bad as the small ones."

In addition, R&D projects are among the hardest for individuals to evaluate. Real estate or oil and gas properties can be compared with similar properties. But how much should a research project cost? How long should it take to develop and market a drug, for example? "You have no basis for measurement," says Warren Shine. "When it comes to research and development, we're all babes in the woods."

Moral: Let the babes in these woods beware.

On to plan C

The tax shelter industry is a confusing one, full of syndicators weaving and dodging as they pursue targeted loopholes. But there's one principle of tax shelters that everyone understands: People who buy shelters want their tax breaks as soon as possible.

So the shelter packagers were merely doing their duty when they created systems for accelerating interest deductions. Two favorites are the so-called rule of 78s and the cash basis/accrual basis ploy. But now a new approach may be necessary. A recent IRS ruling should end use of the rule of 78s for shelters, and legislation proposed by Representative Dan Rostenkowski (D-Ill.), chairman of the House Ways & Means Committee, would curb the accrual shenanigans.

Here's what is at stake. In most real estate deals, much of the tax deduction comes from charging off interest expenses before they are actually paid out. The ability to use accrual is critical, and the rule of 78s is a generous mathematical formula that lets limited partners front-load deductions. The formula creates a fraction that, when multiplied by the total interest payable over the life of the loan, allocates more interest to the early years. An individual with a 30-year, \$100,000 loan at 12%, for example, can use this technique to justify a \$17,575 interest expense deduction in the first year, even though he actually pays only \$12,000 in interest.

No dice, said the IRS last June. Interest deductions in any year must be limited to the amount actually incurred. "The rule of 78s was only popular with the really aggressive programs," says William Brennan, publisher of the tax shelter newsletter *Brennan Reports*. "Most of the creditable programs wouldn't touch it because it just didn't seem right."

Cash basis/accrual basis accounting is a variation on this theme. Consider the example of limited partners paying interest on a ten-year loan from a related party. The controversial technique allows limited partners to operate on an accrual basis, claiming the tax deductions for interest expense throughout the loan's ten-year life, even though they don't actually pay out any money until the final year. The lender, on the other hand, operates on a cash basis, postponing his tax on interest income until year ten. Result: The Treasury allows interest expense deductions but receives no

equivalent interest income revenues.

Rostenkowski's bill would force one side to give in. But the loss of this method won't be easy to take, says Warren Shine. "The largest types of syndications we have been seeing are bedrocked on this concept," he says. Brennan agrees: "In almost any real estate deal with a writeoff in excess of 1-to-1, the limited partners are accruing interest expense."

The question for limited partners becomes, is the loan from a related party? Furthermore, it looks as if the IRS attack on 78s and the proposed limit on accrual will be retroactive.

So it's back to the drawing board for promoters. "It's the same old story," an IRS spokesperson says. "People dream up new loopholes as fast as Congress and the IRS can shut them down."

Out of state, out of pocket?

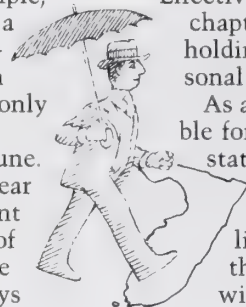
If you are selling tax shelters, it pays to stay several steps ahead of the regulators. Right now a leading example of the industry's creativity involves new rules for Subchapter S corporations, instituted late last year. Among other things, the rules now allow these corporations, which pay no taxes and whose earnings flow through directly to shareholders, to have an unlimited amount of so-called passive income.

Effectively, this means Subchapter S corporations can be holding companies for personal investment portfolios.

As a result, it may be possible for an individual to avoid state taxes by incorporating his portfolio under Subchapter S. By establishing a residence for the corporation in a state with low or no income taxes, like Florida or Texas, a shelter seeker could theoretically avoid his home state's taxes on interest, dividends and capital gains.

Of course, the plan's viability will vary depending on the laws of the states involved. There could be difficulty distributing the corporation's income back to the individual as a nonresident shareholder. Still, the scheme should work in many cases, according to a tax shelter expert.

High-tax states, however, won't like losing those tax dollars, and the low-tax states won't want to antagonize their high-tax neighbors. So you can be sure the states will do their best to beat this game. Not to worry. By the time the paper on these deals begins to yellow, the shelter seekers should be on to the next trick. ■





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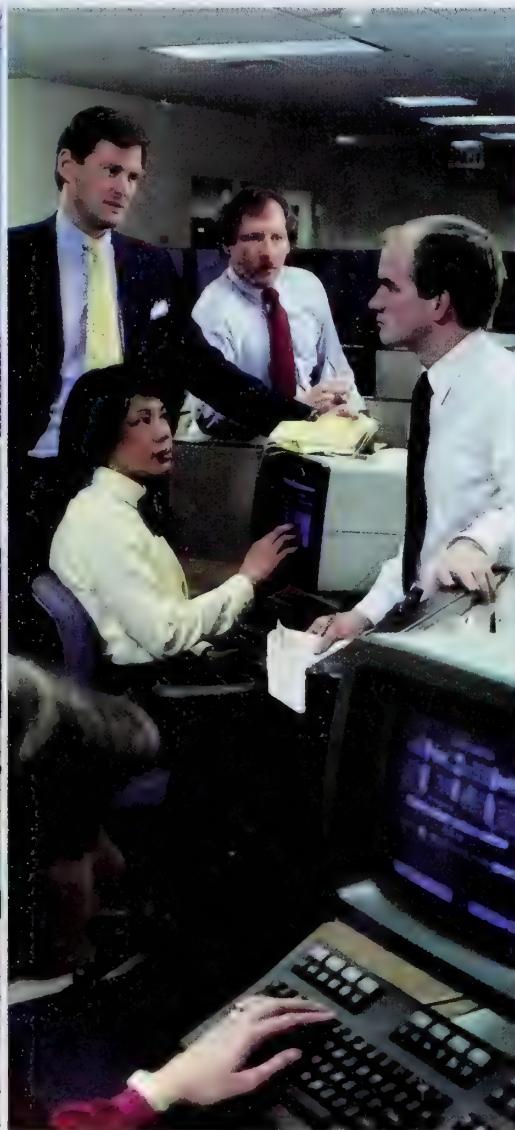
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Morgan officers Ulrich Gerlach and Hans-Georg Engel are trade services experts in Germany.



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left, Morgan banker Richard Johnson in New York with two of the bank's international trade services officers, Alfred Koebel and Alexander Kennedy. Center, at one of the automated data units serving trade clients are Atwood Collins, who heads trade services, Maureen Barrett, Robert Springett, and Lowell Knauer. Right, two officers of Morgan's Hong Kong office. David Morris heads general banking; Kenneth Sit's responsibilities include trade services.

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If a bull can sell you on Merrill Lynch, then why can't a fox sell you on Advest?

The upstart from Hartford

By Paul B. Brown

THE REAL TEST for Advest, Inc., the East Coast brokerage house based in Hartford, Conn., won't come until next year or later. This year, though, looks super. Advest's revenues should reach \$125 million for fiscal 1983, up 60% from 1982. Earnings will more than double, and return on equity should hit 30%, up from 18.4%. For the most part the stock market gets the credit. The surge in trading over the past year has generated big increases in commissions for most everybody in the business.

Advest, meanwhile, has also grown through acquisition. In picking up seven small brokerage firms in less than two years, Advest has taken on business that now contributes 25% of its sales and 22% of earnings. The company has changed its marketing, too. It has stopped trying to be all things to all customers and instead has targeted one set: successful and independent businessmen and professionals. If Advest can command a loyal following of those, it expects to survive and prosper even when the stock market turns sour. If the marketing fails, expect Advest to go the way of Robinson Humphrey, Rotan Mosle and a flock of other regional brokerages that have been grabbed up by big boys such as American Express and Paine Webber.

Necessity, not choice, dictated the marketing shift. Ever since the Securities & Exchange Commission forced the securities industry to forego commission-fixing in 1975, retail customers have drifted to discounters and

rate-cutters. That hurt Advest, which has a larger proportion of retail business—90%—than most brokers. The firm looked to Merrill Lynch, the biggest retailer of them all, which is not entirely dependent on retail business, to show the way. "When I first got here, they said, 'Johnson, just watch what Merrill Lynch is doing and copy what works and ignore what



*Advest's Johnson and LaCroix
Promising tender loving care.*

doesn't," says Judith A. Johnson, Advest's senior vice president for marketing. But the entry of such brokerage outsiders as Sears and Prudential into the business forced Merrill Lynch to change as well. Unselective, mass marketing, Johnson says, "doesn't work anymore." Now, rather than follow Merrill Lynch, Advest intends to tackle it—and its customers—head on.

Even if Advest's target customers—principals in private companies, which have sales between \$1 million and \$20 million, and independent East Coast lawyers and accountants—

are dissatisfied with their brokers, why should they turn to Advest? Simple, says Advest Chairman Anthony A. LaCroix, 54, once a pitcher for St. Louis Cardinal farm teams. Businessmen and professionals who sell their own goods and services in competition with bigger firms are more receptive to a pitch from a smaller brokerage that promises tender loving care.

In the past two years Advest has spent about \$1.5 million in advertising to prove that thesis and is willing to spend much more. Its campaign has produced a new corporate symbol, a fox, to help investor recognition and, perhaps, compare the animal's craftiness to that of Merrill Lynch's bull. Advest also has spent a lot on seminars to teach its brokers solutions to the tax, estate and retirement problems that commonly affect business proprietors and professionals.

There's no guarantee, of course, that Advest will get its money's worth from these programs. Therefore, Advest is not willing to abandon its traditional customers, 60% of whom earn an underwhelming \$40,000 or less a year. The firm also intends to hedge with a charter to go into the banking business. That might smooth the peaks and valleys in brokerage earnings, and it would help Advest offer such services as unsecured and second-mortgage lending.

Then there is, from the investor's point of view, the most unsettling hedge of all. Advest insiders have been dumping their stock, as have insiders at many brokerage firms. Advest officers and directors this year have sold nearly 160,000 shares; about 15% of their holdings. They still control about 20% of the outstanding shares. Of the selling, says LaCroix, one of the sellers, "It certainly wasn't because of lack of confidence in the company. For most of us Advest stock represents our only major investment. That is not prudent. It was time to diversify."

That is understandable. Advest shares have leapt to \$25, from \$6, in the past 18 months. Still, why diversify right out of a sure thing?

Insiders, contrary to popular belief, often make serious mistakes when trading in their companies' stock. But if Advest's grab for market doesn't work, expect it to wind up as part of some huge financial services concern and, possibly, at a price lower than its shares have recently sold for. ■

Which "customized" techniques tailor strong appeals to different individuals.

Why employment contracts are now more advantageous to employers.

Why successful retention programs start long before the hiring process.

How to use incentives, other than money, to encourage loyalty.

HOW TO KEEP YOUR BEST PEOPLE

by
Robert Half

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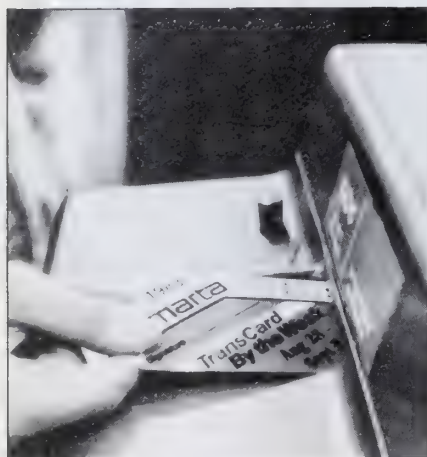
ROBERT HALF
accounting, financial and edp personnel specialists

FO

Lots of folks used to sell transit ticketing systems. Then Cubic Corp. had the market to itself. Instead of fat profits, that brought foreign competition.

Fare feud

*Inserting a fare card in Atlanta
It fails once every 3,900 times.*



By John A. Byrne

THIS IS A STORY about complacency, about what happens when you pay more attention to getting new business than serving old customers. The companies involved aren't particularly well known, and the numbers aren't huge. But the moral is all-important.

Step back to the Sixties. Federal money began pouring into mass transit. Big corporations were peddling automatic fare collection systems, machines that magically open gates when coins drop into a box or encoded cards go into a slot. Litton Industries was an early competitor. Then came Control Data, GE and IBM.

These days tiny Cubic Corp. is the only major domestic manufacturer of automatic fare collection equipment. The big boys got out years ago, when the growth didn't materialize—and that handed Cubic an opportunity. It could gain dominant market share, bring in fat profits and develop top technology.

But that didn't happen. Instead, the San Diego-based electronics company stands a good chance of losing its leadership position, just when demand is growing. The New York subway conversion alone, which may replace the city's antiquated token and turnstile system with modern gates and magnetically encoded fare cards, could be worth well over \$100 million. Other big orders are likely in Los Angeles, London, Singapore and Toronto. Total sales could reach \$600 million between now and 1988. Result: Cubic's \$295 million annual revenues could double by then, if it doesn't lose market share and if it could handle the business.

Now Cubic makes most of its money selling defense electronics systems and elevator products. Less than 10% of the company's sales are in fare collection equipment. Walter J. Zable, the former football player who founded Cubic in 1951—and now owns 31% of its stock, worth \$66 million—got into the transit business over a decade ago. To limit the company's dependence on the military, Zable bought Western Data Products, a tiny manufacturer that was staffed by ex-Litton engineers.

Then IBM pulled out of the fare collection market. In 1972 Zable shrewdly acquired IBM's fare collection technology and engineering drawings at fire sale prices. Cubic also agreed to complete the second phase of San Francisco's BART system, a job IBM had declined to finish.

Zable soon proved he could outmaneuver other better-financed competitors. After Control Data Corp. won a development contract for Washington, D.C.'s Metro, Cubic moved in to land the final \$53 million contract in 1975. Three years later Cubic won another key victory to

supply Atlanta's rapid rail system.

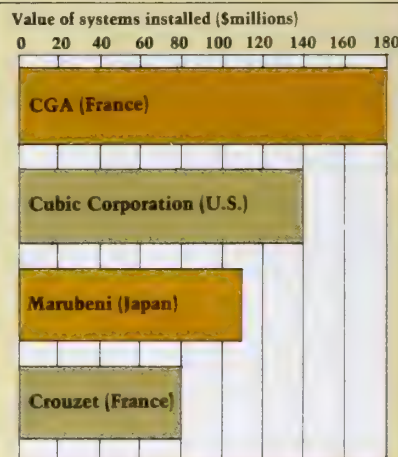
Despite the marketing successes, Cubic's equipment seemed particularly unreliable. Fare cards jammed in gates, ticket vending machines frequently broke down and local newspapers eagerly chronicled consumer frustrations. At one point Washington's Metro Board chairman called Cubic's system a "\$50 million disaster," and local officials advocated scrapping it.

Eventually, Cubic spent \$10 million in order to improve operating efficiency in Washington, and Zable now claims most of the problems there are solved. Others would disagree. Nearly ten years after Cubic won the Metro contract, nearly 15% of all ticket vending machines are out of service on an average day, and officials estimate they lose up to \$1 million annually due to fare evasion. "I'm not a satisfied customer," says Joseph Greenway, general superintendent of systems maintenance.

Things are even worse in Atlanta. Initially, gates failed at least once in less than 1,000 transactions. That dismal performance occurred despite a contract that specified a failure rate of no more than 1 in 34,000 transactions. Currently the system fails every 3,900 transactions. Edward Gilcrease, director of systems engineering for the city's rapid transit authority, admits that early requirements were "probably unrealistic." But he is still unhappy about the fre-

Who collects the most fares?

The market for automatic fare collection systems isn't big, but it could grow fast. Here are the industry leaders worldwide.



Source: J.W. Leas & Assoc., Bryn Mawr, Penna

quent breakdowns.

All this bad publicity hurts Cubic, and foreign competitors are eager to take advantage of its tarnished image. Marubeni, a Japanese trading company, is moving into the fare collection business here, and French-based Crouzet bid unsuccessfully on recent projects in Miami and Baltimore.

A more significant challenge comes from Compagnie Générale d'Automatisme (CGA) and its 90%-owned U.S. subsidiary, Alta Technology, Inc. CGA recently beat out Cubic in Caracas and—more important—won the second phase of Hong Kong's system, where Cubic equipment is now in place. Cubic maintains it lost out because of French financing subsidies.

Back home, Cubic has also lost recent contracts to Alta in Baltimore and Buffalo, its first domestic setbacks. Zable didn't take either situation lightly. In both cities he tried unsuccessfully to reverse the actions by intensively lobbying legislators. "We got ourselves caught in a marketplace fight," says David Wagner, administrator of the Maryland Mass Transit Administration. "For about nine months after Cubic lost the contract, it tried to overturn the award. That cost us a lot of time and money." Adds Jack Bayer, who administers the Buffalo contract: "It seems to me that Cubic spends more money on lobbying and legal fees than engineering."

The current battleground is Miami, where Cubic won a \$4.3 million contract for Metrorail fare collection equipment last October. The day that bids were due, Zable filed a dumping complaint against Alta. That move, which was criticized by Alta executives as a stunt to influence the Miami award, was dismissed by the International Trade Commission after only a preliminary investigation.

Meanwhile, Alta began to fight back. It now charges that Cubic gained inside information and, as a result, managed to underbid by less than 3% in Miami. A private investigator has confirmed that two typewriters were used, leading to speculation that figures were changed. Jerry Ringer, assistant to Zable, pooh-poohs the charges. "All we had made was a typographical error that was later corrected," he says. "No one has taken this seriously."

Perhaps not. But what municipal officials do take seriously is the fact that during the years Cubic wasn't plagued by competitors its equipment was plagued with problems. The way to hold on to a market is to leave a trail of satisfied customers, not a phalanx of protesters. ■

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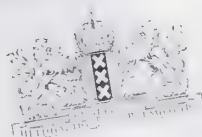
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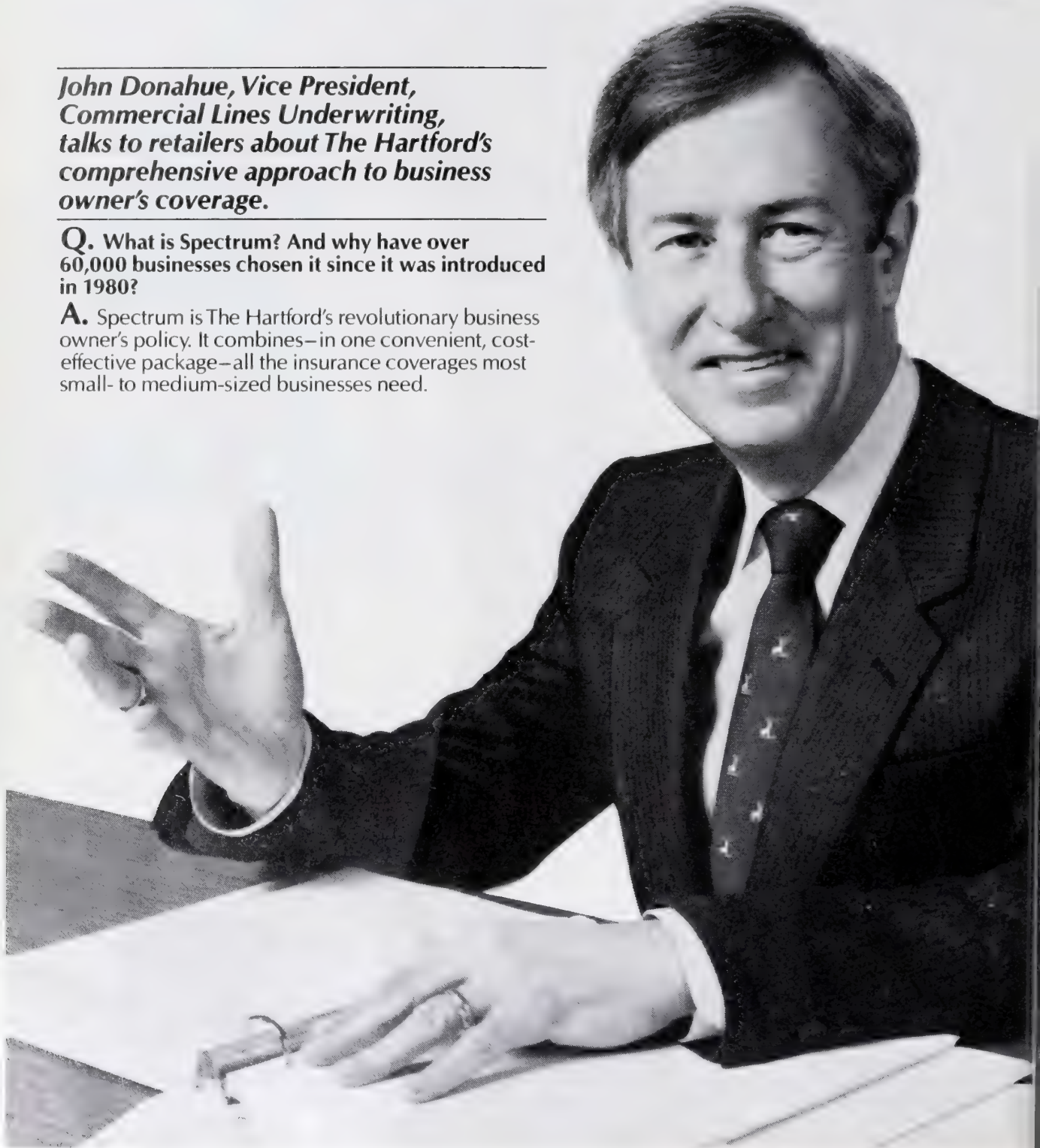
How The Hartford prote

"With Spectrum most packag

*John Donahue, Vice President,
Commercial Lines Underwriting,
talks to retailers about The Hartford's
comprehensive approach to business
owner's coverage.*

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A. Often it's quite the opposite. Most package policies include coverages you may not need, but have to pay for anyway. With Spectrum, many of those coverages are optional. They include Loss of Income, Employee Dishonesty, and Non-Owned Auto/Hired Auto. If you don't need those coverages, you don't have to pay for them.

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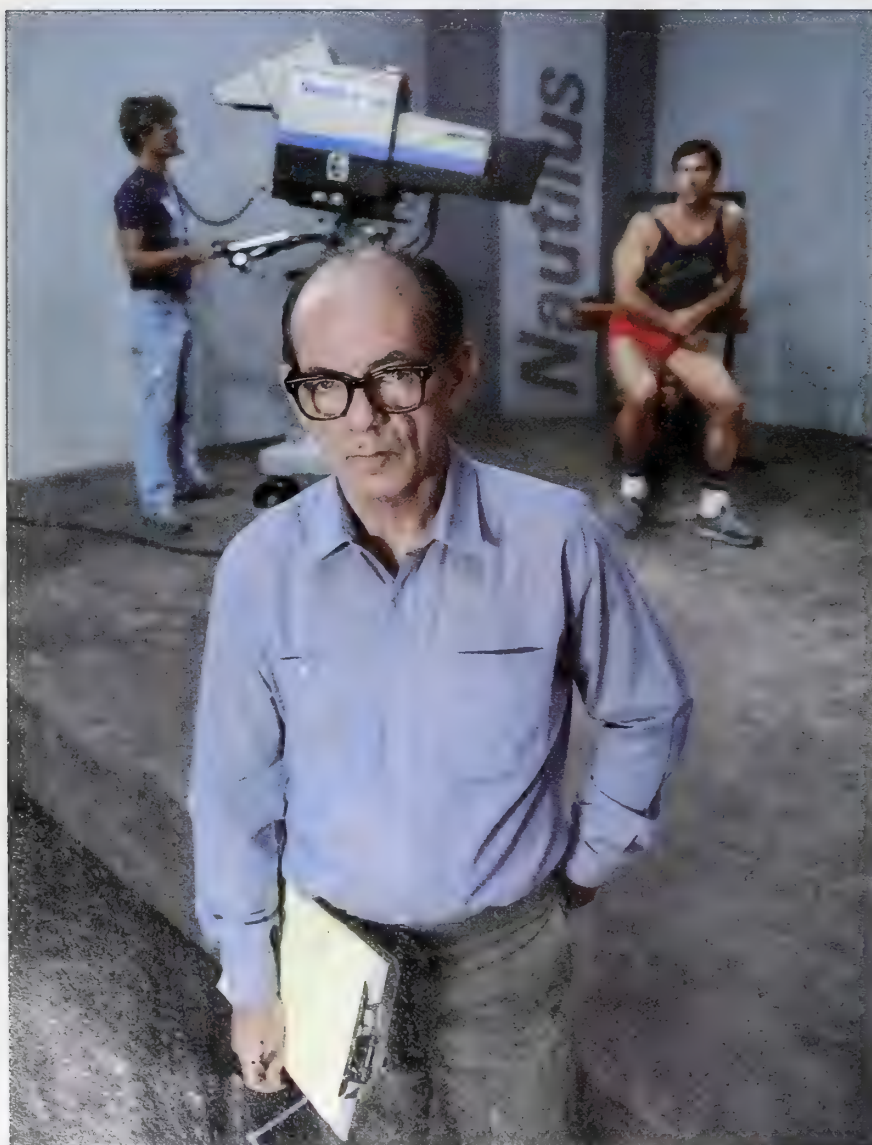
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Will the public ever be ready for Arthur Jones? His outrageous talk? His 707s? His dreams of billions? His experiments with alligators, crocodiles, people?

By Laura Rohmann

A one-man show



Nautilus inventor Arthur Jones with former Mr. America Boyer Coe
Are the crocodiles working out, too?

ARTHUR JONES, the inventor of Nautilus exercise equipment, is piloting his Cessna Citation over Louisiana at 43,000 feet. His destination: Waco, Tex. "We're going to look at my new jets," Jones says excitedly. "I just bought two 707s from American Airlines. Wait till you see how big they are."

What, you may wonder, is Jones going to do with two private airliners? "Fly doctors to Latin America," he says, as if that should have been obvious. By January, Jones intends to launch a ten-year experiment of ambitious proportion. He plans to hire several hundred Latin Americans to work out regularly on Nautilus equipment. In addition to small salaries, they will get food, education, recreation and medical care. Doctors will monitor the exercisers to determine the precise nature of any long-term health benefits of the Nautilus regimen. The jets will be used to fly other physicians from the U.S. (who will, of course, tour the experiment) to a Jones-financed medical education center nearby. Of his exercisers, Jones says: "It will be near-utopia for them, because most of these people would be starving peasants otherwise."

There is, of course, no free launch. The cost of Jones' project will match its grandiosity. The current estimate is \$9 million a year. As majority shareholder of privately held Nautilus Sports/Medical Industries Inc., Jones can spend that kind of money and answer to no one, with the possible exception of the IRS. He has become accustomed to doing just that.

Jones has considered taking Nautilus public, but more likely he will do so later rather than sooner. The move could put quite a crimp in his style. He never has disclosed Nautilus' sales (estimated at over \$200 million a year) and earnings. "Why should I give my competitors the club to beat me with?" he asks. But in running a public company, Jones would have to surrender the club. Jones might even have to think twice before making some of his outrageous public statements. Example: "The one good thing about Communists is that when they take over a country the first thing they do is kill all the lawyers."

Jones has become rich from his machines. They sell for an average of \$2,400 each, or \$35,000 for a set of 15. They hit the market just as the idea of physical fitness set millions of Ameri-

cans to pushing, pulling and otherwise torturing muscles that had rarely wrestled with adversaries more demanding than power steering or a beer-can top. To professional athletes and amateur converts of the fitness persuasion, Nautilus has become the ultimate gear for honing the body beautiful. "Nautilus is in a class by itself," says the manager of a New York health club. More than 100,000 Nautilus machines now beckon exercisers, creating for Jones a fortune that exceeds \$125 million.

Jones is as aware as anybody else that his machines could go the way of Lydia Pinkham's or the Hula-Hoop. And, while he plans to introduce lightweight home versions of his fitness center machines for only \$400 or so each, he's banking heavily on establishing Nautilus in the medical market. Soon to appear are electronic Nautilus machines priced as high as \$30,000. Jones expects to sell them to hospitals and clinics for rehabilitation and testing of patients. Computerized, the machines monitor and record patients' physical performance at a minimum labor cost.

To succeed, Jones must establish Nautilus' credibility in the medical field as he has in athletics. Hence his proposed venture in Latin America and other experiments. If working out on Nautilus machines can ease childbirth, say, or prevent or correct bone-deteriorating osteoporosis, a big new market opens up. Jones has especially high hopes for a leg-pumping machine that, he says, will replace jogging, and a machine that works and strengthens the lower back muscles. "If I can't make \$20 billion on that back machine in the next ten years," he says, "I should go shoot myself."

That's right, he says, \$20 billion. Big numbers for a man who, although both his parents were doctors, dropped out of school after the ninth grade ("I should have dropped out in the sixth grade," he says). By 1948 Jones, born in Arkansas, found himself in Tulsa, living at the YMCA and working out with barbells. "I ended up with the arms and legs of a gorilla on the body of a spider monkey," he says. "I figured there was something wrong with the exercise tool."

Jones' problem was in part genetic, but, unaware, he set out to build a better exerciser. It took him 22 years. While working on his prototypes, he made a living importing animals from Africa and South America to sell to carnivals and circuses. He produced television shows about his experiences, such as *Wild Cargo*. In the early 1970s he finally perfected the basic

Nautilus mechanism. It relies on eccentrically shaped cams to vary the resistance experienced by an exerciser in his routine, so that what otherwise would be the easiest parts of a routine demand as much of the muscles as the hardest. "It's nothing more than a thinking man's barbell," Jones says. There are those—Jones calls them "idiots"—who doubt that exercising on Nautilus machines is superior to other forms of exercise, but the market clearly loves what Jones has offered. Today Nautilus runs three shifts on most of its half-million square feet of manufacturing space.

The money has left Jones free to indulge his interests. He spent \$70 million on his Nautilus Television Network, housed in Nautilus' headquarters in Lake Helen, Fla. Here on the lobby wall hangs a photo of Jones' 21-year-old wife, Terri, holding a huge rattlesnake. The network is developing such programs as *Beauty Is More Than Skin Deep*. Terri stars in that one. She is a former model and the fifth of Jones' wives, whose ages at the altar ranged between 16 and 20. Novelist Martin Caidin, who wears a Kojak hairdo and a handlebar mustache, hosts a talk show with some of Jones' gift for outrageous hyperbole. "Don't tell me a book is controversial," said Caidin to John McManus, a spokesman for the John Birch Society. "You can make a book say any damn thing you want. You know that; you're a professional word monger." Mostly, however, the network produces rather tame demonstration tapes for health and medical groups.

Then there are the experiments. Some are conventional, such as a Jones-financed University of Florida study of whether exercise can increase bone mass. Others smack of science fiction. Jones is doing something with the 40 crocodiles and 2 alligators he keeps at corporate headquarters, but won't say what. He says only, "Some of our research is so strange we don't talk about it." At home he breeds rattlesnakes.

How Jones' public shareholders would take to all that, if Jones did indeed take Nautilus public, remains to be seen. After all: You don't buy the company, you buy the management. Jones himself is uncertain about going public. "I never considered it until recently," he says. "But we're going to explode. Our sales are going to go up by multiples of ten, so we should strike while the iron is hot. But I might not like going public." One thing is clear: Jones has never answered to anybody, and he's unlikely to play to a shareholders' mob. ■



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Keeping a fortune is hard enough for most entertainers. Lawrence Welk, with help from his son Larry and Ted Lennon, has built a \$25 million business.

"Wunnerful, wunnerful!"

By Roger Neal

HOLLYWOOD IS THE LAND of the riches-to-rags story. A young entertainer shoots from a shared apartment and fast food to Beverly Hills and fast cars, only to plummet again the minute his audience yawns. Only a few show business people possess the combination of talent, good luck and the old-fashioned discipline to hold on to and capitalize on their peak-year incomes.

Lawrence Welk is one of those few.

Welk's show, now in its 28th year, last year pulled in advertising revenues of \$250,000 per airing. Welk's elderly fans flocked to the Lawrence Welk Village, his resort in Escondido, Calif., and bought up Jim Nabors' and Welk's Champagne Music Maker's albums to the tune of \$7.5 million in 1982. What's more, the Welk name, synonymous for decades with ah-one and ah-two Squaresville, has a fresh identity in music publishing. The Welk Group, the seventh-largest and leading independent in the field, owns the rights to hits by such "now" hotshots as Air Supply, Linda Ronstadt and Rick Springfield and contributed \$9 million to the Welk organization's 1982 revenues of \$25 million.

Things could have been different. When his television show went national in 1955 and some real money started rolling in, Welk knew little and cared less about

money management. But mindful of so many other show biz folk who had been taken over the years by unscrupulous "business managers," Welk chose Ted Lennon, uncle of the Lennon Sisters, part of his "musical family," to handle his affairs. Lennon built the foundation for Welk's real estate and entertainment mini-empire, which is now overseen by Welk's son and company president, Larry.



The maestro bronzed at Lawrence Welk Village
Turning an aging audience into an asset.

Profiles

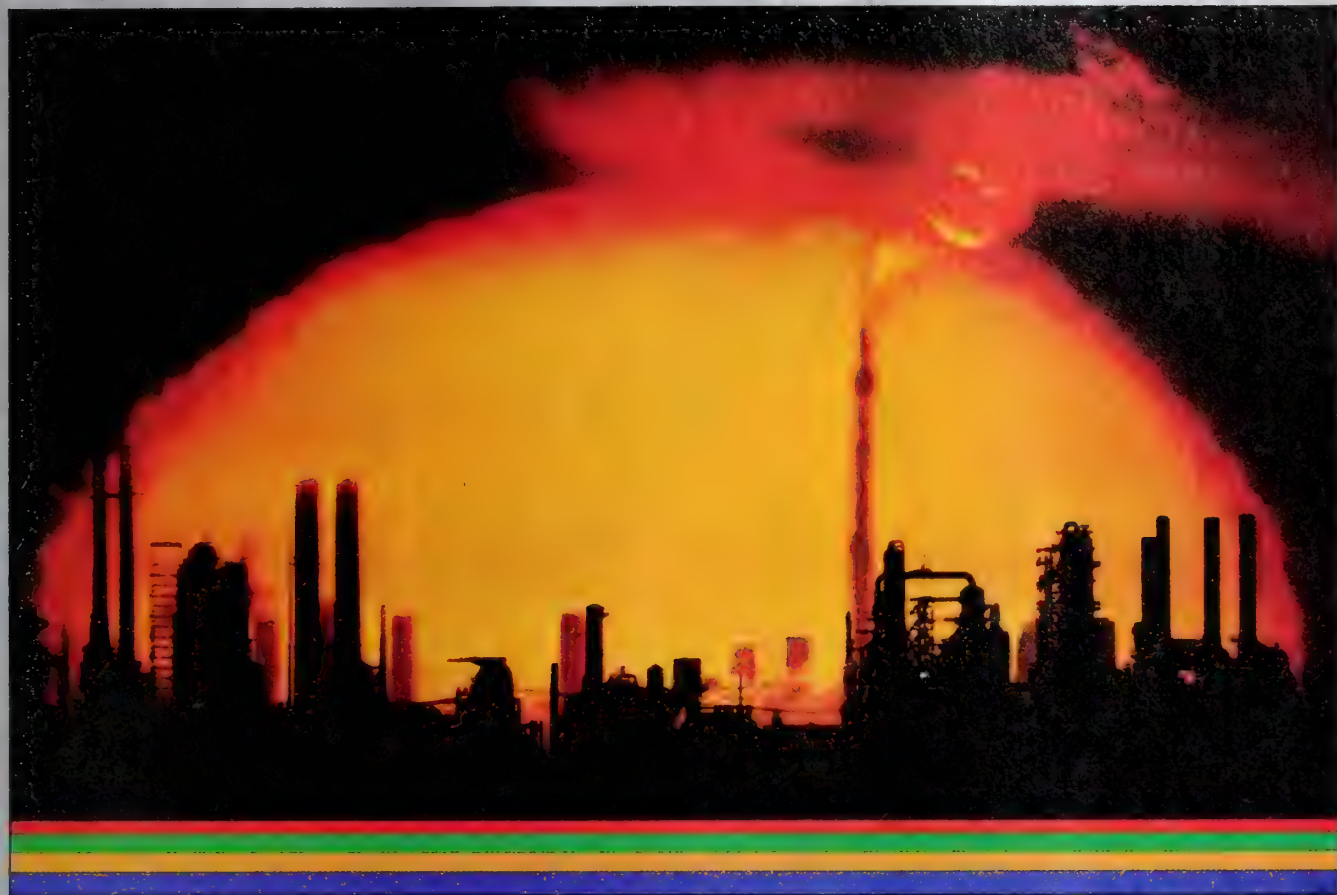
Lennon, a modest man without a college education, learned by doing, often attending night school to brush up on business basics. He chose real estate to shelter Welk's cash, developing three office buildings and an apartment complex in pricey Santa Monica, including the stunning stair-step, high-rise Welk organization headquarters overlooking the Pacific.

Lennon's biggest challenge, however, came in the early Seventies as Welk's audience was growing older and younger audiences were going elsewhere. Lennon took note and turned Welk's aging audience into a considerable asset through Lawrence Welk Village, a 900-acre retirement community/resort 120 miles south of Los Angeles. Welk himself picked the sunny, dry Escondido location in 1964, when it was little more than a 100-space trailer park. Today the park has 450 mobile home spaces, a golf course, 90-room hotel, restaurant, dinner theater and shopping arcade. The grounds, a veritable mecca for Welk believers, abound with icons to the maestro's success: a bronze statue

of Welk, piped-in champagne music and the Lawrence Welk Museum, home of Welk's 7-foot crystal champagne glass. The village, aimed at vacationers and permanent residents, benefits from free advertising each week on the *Memories with Lawrence Welk* TV show. Welk tapes inserts on location at the park for his old Saturday night programs, which are then rebroadcast.

People under 60 may not think of him as charismatic, but nevertheless the Welk persona has been an invaluable draw for the retirement park. (A survey found that 85% of his viewers find him "believable.") On occasion, however, the image has been turned against him. When Lennon raised village trailer park rents 42% in 1977, bringing them up to the surrounding market, tenants took it straight to the press—"Lawrence the rent gouger." Lennon toughed out the brouhaha but even today holds his head when recalling the uproar. Since that episode, Welk has avoided residential real estate development. "Fortunately," says

In these dark times, we still see a bright future for the energy industry.



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Today, many of the suppliers of our nation's energy have been left to cope single-handedly with the problems facing their industry. But the energy situation affects all of us. And we must all work to find solutions. That's why Bank of America is as committed to the energy industry today as ever.

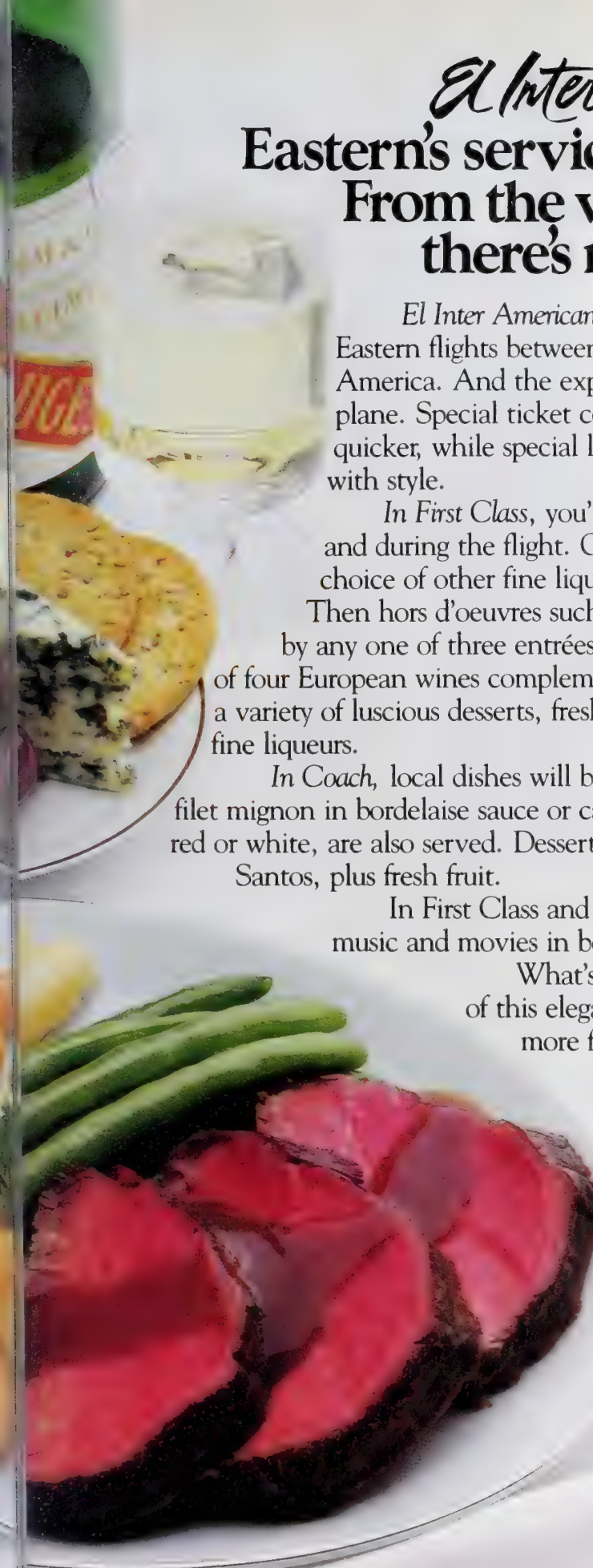
And we're not just talking. We're lending our expertise. Our petroleum engineers and account officers are working together to evaluate the underlying economic feasibility of projects. We're providing financial advisory services backed with the comprehensive, multinational capabilities that international businesses need. Our record as a lead manager has made us a major force in syndications. And our leadership position in banking gives us the financial commitment capacity and flexibility major energy programs require.

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Gum wrappers and dance lessons



Welk on the balcony of his Santa Monica office
It all began with Honolulu Fruit Gum wrappers.

LAURENCE WELK has long been known as America's dance music maestro. But it took as much promotion as music to make it on the midwestern band circuit where he started out 60 years ago. In fact, Welk never took a lesson, never did his own arranging and doesn't rate himself highly as a musician.

But the potential of the dance band business was something else again. As a youngster on his father's farm in German-speaking Strasburg, N.D., Welk did chores by day and played the accordion at dances at night. Luring diffident farm boys to dances was a tough job. Welk did it with introductions to pretty girls he himself had met at his last performance. For those claiming they couldn't dance, Welk offered lessons. "It's difficult to show someone a good time if he's not a good dancer," he says.

Once he became an established bandleader, there was still an obstacle to nationwide renown: the lack of a commercial sponsor. So Welk became his own sponsor by buying up most of the inventory of Honolulu Fruit Gum for a penny a package. He changed the band's name to the Honolulu Fruit Orchestra and staged beauty contests at the dances. The audience cast their votes for the winner on the backs of Honolulu Fruit Gum wrappers, which Welk sold at 5 cents a pack—a 400% markup. Soon Welk had 19 advance men out filling demand for the "ballots" and was making more money off the gum than from the nightly cover charge.

But could Welk's matchmaking approach to dances compete with today's singles' bars? Welk ponders the question on the putting green balcony of his office overlooking the Pacific. He sighs. "I doubt it," he says.—R.N.

Welk smoothly, "I've wanted to make people dance and enjoy themselves more than be a good businessman."

In 1980 the Welk organization purchased Ranwood Records, which targets Welk loyalists as a market by specializing in middle-of-the-road artists such as Jim Nabors, Tennessee Ernie Ford and, of course, Welk's own Champagne Music Makers. To reach elderly customers who don't browse through the racks at record stores, Ranwood peddles records through K mart-type retailers, late-night television ads and mail order, for a total of \$2.5 million in 1982 revenues.

Welk's older audience, asset though it is, can't live forever. Welk himself is 80. For the company to continue to prosper, it must look to the future. That was Welk's son Larry's intent when he joined the company in 1980, after 20 years in the recording business with Dot and Ranwood Records. The chosen field: music publishing, which contributed 35% of last year's revenues.

Today the younger Welk, 43, employs a staff of 40 songwriters to turn out pop and country-western songs that promotion men take to recording artists. Welk's publishing business is also aggressively strengthening its back list, purchasing old songs in lots called catalogs and adding them to a collection that now numbers 20,000 tunes. Every time a Welk-owned song is broadcast, played in concert or cut as a record, Welk's publishing operation earns a royalty, usually of a few pennies. Last year these added up to almost \$9 million.

Welk's in-house songwriters turned out 32 top-100 country-western songs (more than any other publishing outfit), while the operation fared well with old catalogs as well. The catalog trick: convince a hot pop artist to rerecord an oldie but goodie, as Linda Ronstadt did last year with Welk-owned "Hurts So Bad." When Ronstadt sent it back up the charts, royalties from that song alone paid for purchase of an entire catalog of 800 songs. Among other Welk holdings: "Showboat" and the rest of Jerome Kern's music, which is likely to enjoy a revival in 1985, the centennial of Kern's birth.

Under the younger Welk's direction, the Welk organization is planning further expansion at Escondido and in music publishing. It will also enter new areas such as television production. What is the elder Welk's reaction? "Because I surround myself with people that can do the things I cannot do, I'm enjoying my success, and I don't have to work at it too much anymore," says Welk with a smile. ■



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Woo-Choong Kim
 Chairman

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Becton Dickinson is being squeezed from all directions—by the competition, by technology and by its own long-term strategy.

Time of troubles

By Richard Phalon

SUFFERING MAY OR MAY NOT be good for the soul; the question is whether it's good for a company. Over the last five years, both Becton Dickinson and Co., and Wesley (Jack) Howe, its CEO, have had their share. Howe has had to:

- Modernize a family-dominated company riddled with cronyism.

- Depose Fairleigh S. Dickinson Jr., son of founder Fairleigh S. Dickinson Sr., as chairman in 1977.

- Beat off a bid for control by the Sun Co.

Along the way, of course, Howe also had to run the business—well,

from all appearances. Sales at the Paramus, N.J.-based health care firm rose from \$682 million in 1978 to \$1.1 billion last year, earnings from \$2.78 to \$3.63 a share. BD broadened its position as the world's number one producer of syringes and needles and pushed into promising growth areas in the diagnostic and immunological products that account for a major portion of sales.

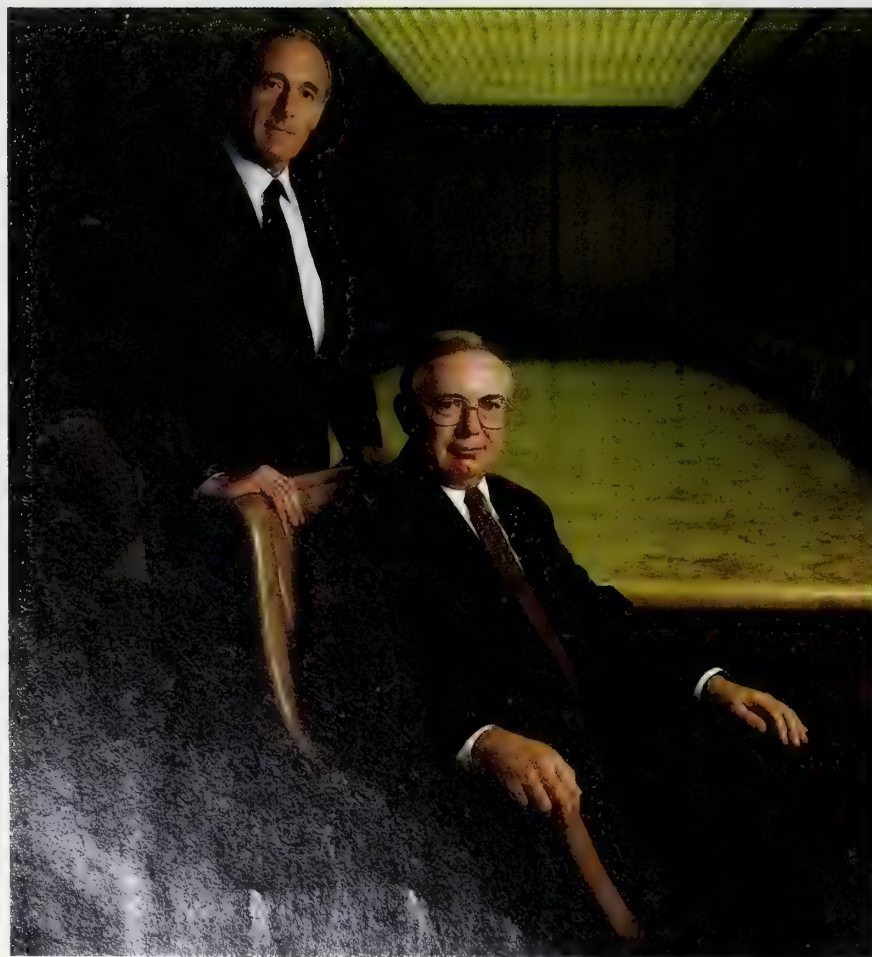
But look behind those figures, and things aren't so rosy. BD's growth rate fell during that period, from around 13.5% to an outright negative, and its operating margins, from 17.2% to 13.1% of sales, while those of competitors like Baxter Travenol Laboratories, Inc. and American Hospital Supply Corp. got fatter and fatter.

By June BD's second quarter pointed up what was by then a chronic malaise: sales up 4.2%, earnings down 17%. In the third quarter, Howe bit the bullet with \$75 million in pre-tax writeoffs. It was partly offset by a \$43 million pretax gain, but that came on the sale of BD's equity in a promising little (\$13.9 million revenues) British contract research organization, Huntingdon Research Centre.

About \$52 million of the writeoff reflects the licking Howe expects to take on the sale of two deficit-ridden companies acquired in 1977 and 1979 for a total of \$44 million in BD stock. They are Drake Willock, which makes kidney dialysis machines, and Telemed Cardio-Pulmonary Systems, which provides computerized analyses of cardiograms. Some of the remaining \$23 million written off represents a big disappointment in what Howe had hoped to be a major product line—a series of automated immunoassay instruments that proved costly to manufacture and not up to technological snuff. BD also took a bath on heavy cost overruns and production foul-ups in a plant built for its computer keyboard operations.

BD was, in some areas, far worse off than he knew, Howe concedes. There were "errors of judgment and management failures," he says—inevitable, perhaps, given the stresses of BD's recent history and the difficulties of diversifying out of slow-growth mature product lines into fast-moving new technology.

The \$40 million written off against Telemed and Drake Willock shows how easy it is to get overrun. Telemed's cardiogram analyses moved to doctors over increasingly expensive telephone lines and were tied to the high fixed cost of a computerized central station. Along came the microchip and miniaturization, making



Former Chief Operating Officer Marvin Asnes and Jack Howe, CEO
A new career for Asnes; for Howe, ennobling pain?



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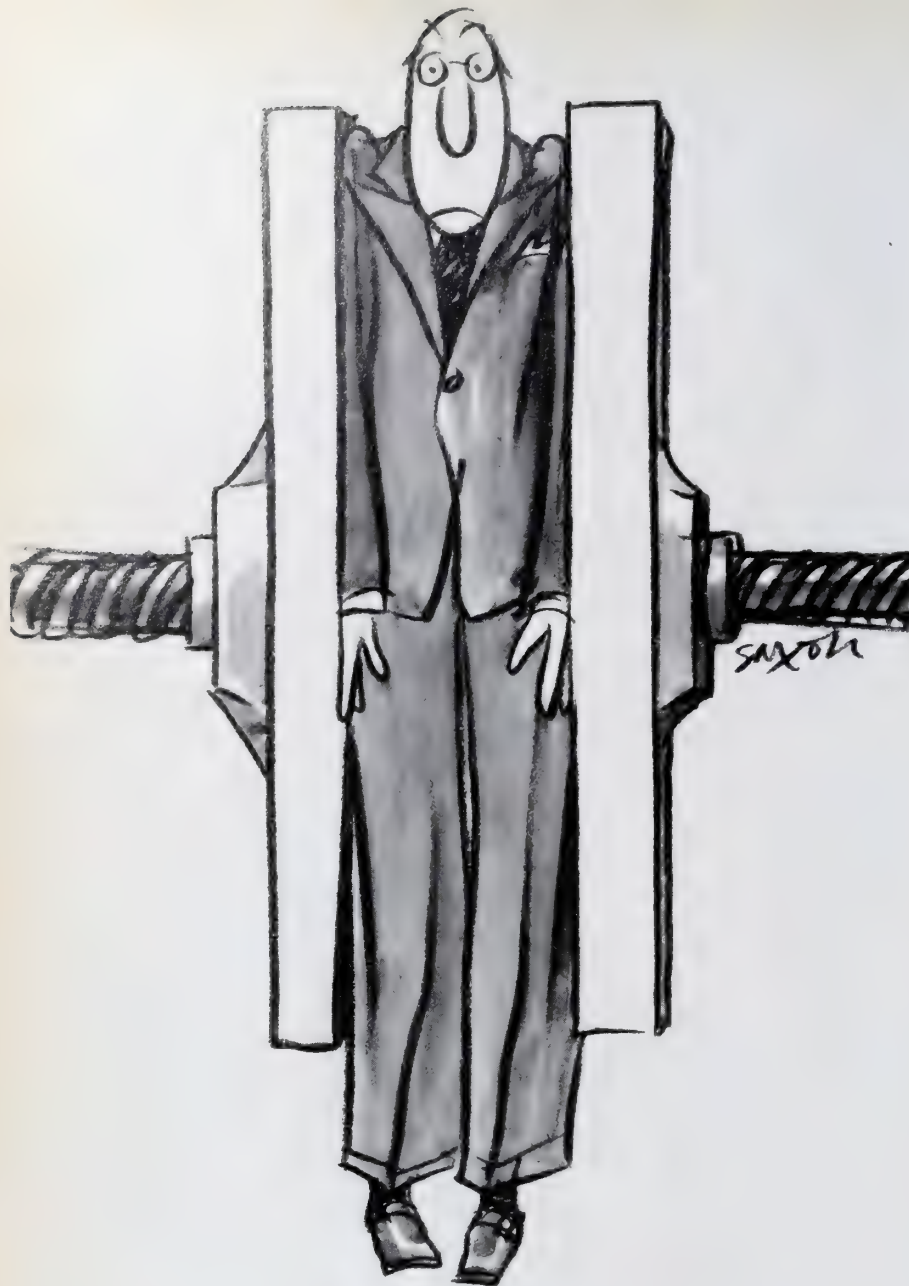
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possible lower-cost instrumentation packaged on a cart that could easily be moved around a hospital.

Similarly, Drake Willock renal machinery is tied to in-hospital care and is being preempted by the evolution of cheaper competing dialysis systems that a patient can administer to himself at home. Such miscues make Wall Street analysts like L.F. Rothschild, Unterberg, Towbin's Jeffrey D. Ashenberg think that BD "has simply not done a good job of keeping itself at the leading edge of technological change." The Street agrees: In the past few weeks the stock was at 40, down from a high of 54½ as recently as 1981.

Howe is putting more money into research and development—not easy, because an ambitious expansion program is still a big drain on earnings. Over the last three years BD has invested a sizable \$380 million in new plant, about half in Europe and Latin

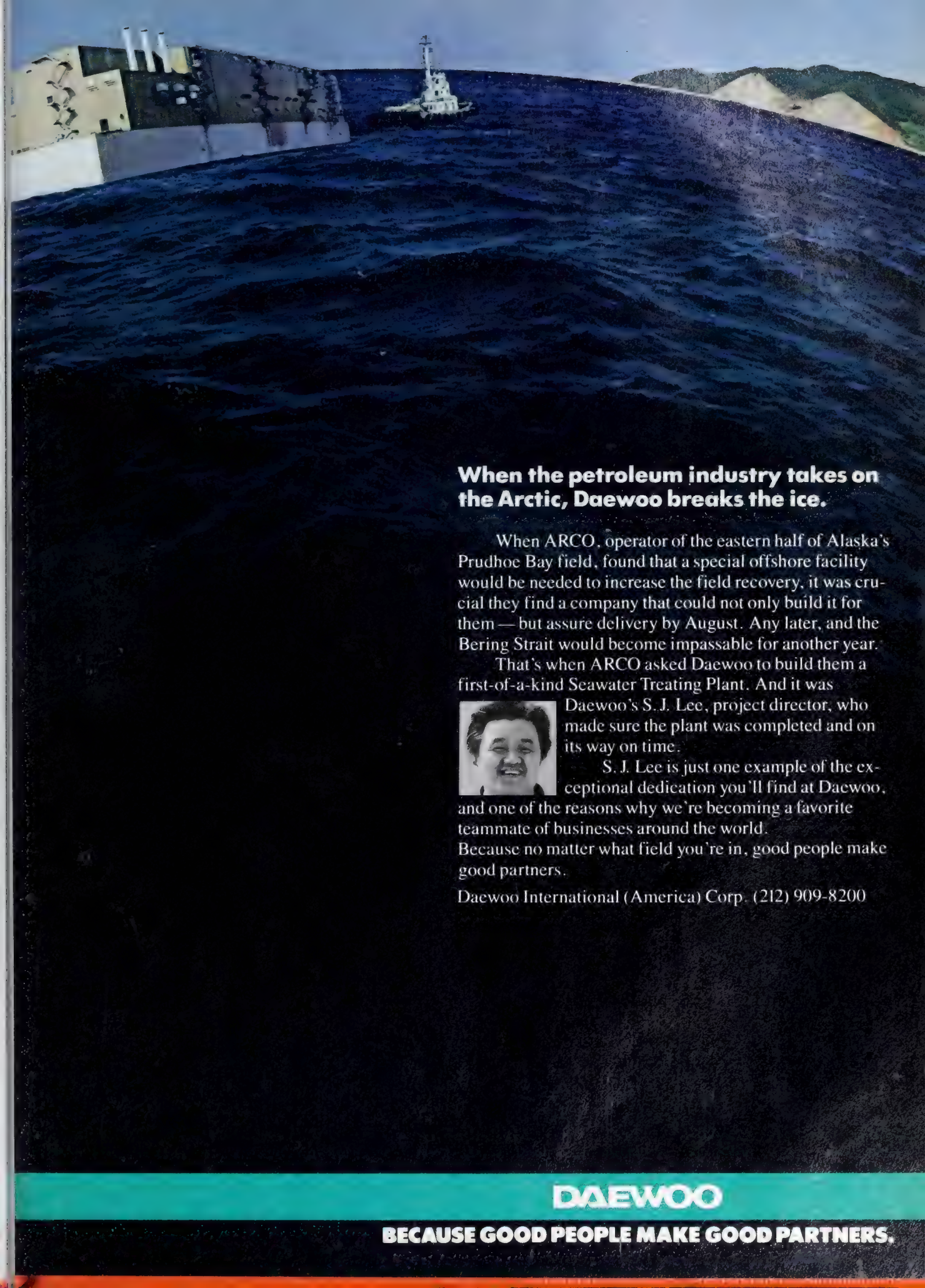
Much of the company's new plant is still plagued with startup costs and operating well below capacity. The pain has been intensified by the cost of setting up new selling organizations to go with the new capacity.

America, where Howe intends to make BD a major force.

Much of the new plant, though, is still plagued with startup costs and operating well below capacity. The pain has been intensified by the cost of setting up new selling organizations to go with the new capacity. Like most U.S. producers with foreign connections, BD has also been hurt by the strong dollar.

There has been an upset in the personal chemistry at BD, too—the retirement of Jack Howe's chief operating officer and good friend, Marvin Asnes, from both the company and the board. Separate talks with both men suggest no disagreement over tactics or strategy. Asnes has just turned 55—"the big double nickel," as Howe puts it. He says Asnes has been planning a second career of some sort for years. Assertive and articulate, Asnes is a detail man, and Howe leaves no doubt that he will be sorely missed.

It's a time of trouble for BD, all right. A lot depends on how the foreign strategy works, and that may not be clear for another two years or so. Until then, Jack Howe and Becton Dickinson may be in for more suffering, ennobling or not. ■



When the petroleum industry takes on the Arctic, Daewoo breaks the ice.

When ARCO, operator of the eastern half of Alaska's Prudhoe Bay field, found that a special offshore facility would be needed to increase the field recovery, it was crucial they find a company that could not only build it for them — but assure delivery by August. Any later, and the Bering Strait would become impassable for another year.

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If you think all government companies are alike, look at Venezuela. Politicians run one, businessmen another. Now guess who makes the cash. And guess who blows it.

Caracas on the rocks



Drilling rig on Lake Maracaibo
The money gushed in, but what did it buy?

By Harold Senecker

CARACAS SPREADS modern, vigorous and dramatic down the floor of a 10-mile lush green valley, but what arrests the eye are the slums that climb the high ground. They are jerry-built shacks thrown up "beyond the asphalt," as the locals put it, from scavenged cinder block, wood and tin. A million people, perhaps a million and a half, live in these "ranchos."

Other capitals in Latin America support huge shantytowns, too, and have for generations now. Poor people generally have chosen poverty amid the excitement and opportunity of the city over poverty in the countryside. But Venezuela was supposed to be different from the rest of Latin America. Richer even than Mexico in oil, far more comfortable than Argentina with democratic politics, less radicalized than Chile, and bigger than most of the rest, Venezuela was given a good chance of breaking the Latin American mold.

Instead, things have gone dreadfully wrong. Venezuela's economy has been stagnant for years. Inflation persists at 20%. Oil exports have shrunk by 15%. The finance minister and central bankers commute frantically between Caracas and New York; half the country's \$32 billion in foreign debt comes due soon. Lines of Venezuelans buying dollars, at triple last year's prices, stretch around the block. And the country's political stability will be tested again soon. A new president is to be elected on Dec. 4.

A sort of economic schizophrenia has worked its way on Venezuela. The country has simultaneously pursued two models of growth, one statist and politically constituted, the other relatively businesslike and rationally efficient. The oil holding company, Petróleos de Venezuela, S.A. (PDVSA), has taken the course of businesslike development. The Corporación Venezolana de Guayana (CVG), the other major state-owned holding company, builder of much of the country's non-petroleum industry, has taken the politicized course.

For the view from PDVSA, talk with William Padron, an up-and-coming engineer working for the company at Amuay, the world's third-largest refinery, and one of the most modern, near Lake Maracaibo. Over a Polar beer at Luigi's, the best restaurant in town, Padron tells you this: "Thirty thousand people run this country—the thirty thousand who work at PDVSA. Oh, not directly, but we make all the money the country runs

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on. All the other industries, the state industries, they lose the money we make for them." He pauses. "It's funny. Venezuela is a capitalistic country. Everyone is interested in business. But all the big industries are state-owned. They all lose money."

PDVSA is the world's ninth-biggest oil company in sales (\$19.62 billion in 1981). On that, after taxes of 78%, it netted a margin of 15.4%. It is debt-free. Its big Amuay refinery, 90% computer-controlled, could run with only 40 employees, if necessary, at least for a week or so. The refinery strives to meet U.S. environmental standards. Venezuela's high-sulfur oil makes it tough, yet the piles of bright yellow stuff lying about, taken from the refinery's crude, are pure enough for a small but profitable sideline.

Padron takes a lot of pride in his company. "We are running our own operation at PDVSA, without foreign advice," he says, "and we are running an efficient operation. We know we are good. Amuay, for instance, is one of the most efficient refineries in the world. We are on a par with Rotterdam." Ask him what he thinks of having PDVSA run by a politician's appointee, and you get a quick, sharp reply echoed by nearly everyone else in the huge company: "A disaster."

A lot of the money that Padron and his colleagues helped make at PDVSA has poured into an area at the junction of the Orinoco and Caroni rivers in Venezuela's wild interior. Here, CVG, the other holding company, has been building the giant Guri hydroelectric dam. It was started 20 years ago and is now 80% complete. Guri was supposed to provide the energy to diversify Venezuela's oil economy. Its construction turned two sleepy river towns—Puerto Ordaz and San Felix—into booming Ciudad Guayana. But the logic of Guri was public-sector economists' logic, not businessmen's. "Import substitution" and "resource allocation" were buzzwords, while private profit was and remains a suspect notion. Because Venezuela had iron ore and imported steel, the prevailing logic held, a bigger steel industry should be built. Build an aluminum industry, too. Lots of new union jobs for a country whose labor

force is largely union-organized.

The country's fallow or ill-used farmland, meanwhile, was neglected. It was not spectacular. It was not industrial. It was not union. It harbored few votes. Today, the Guayana area's unemployment rate is 20%, and the dam has fallen four years behind schedule. The aluminum industry has been losing money, the steel mills are operating at 45% capacity and dumping their product abroad. SIDOR, the big government steel company, ran up a loss in 1981 equivalent to 56% of its revenues. In 1982 it racked up another huge loss.

Gross, even grotesque, miscalculation of demand for the Orinoco's steel only partly explains the waste. Pass by the eerie, echoing mills with no

There is an explanation for the useless capacity, too. "SIDOR is a political mistake," comments Mazzei. "In Venezuela we do not look at economics. We look at the *Guinness Book of World Records*." In Caracas they had predictions that Venezuela—internally—would be using 15 million tons in 1985. Current consumption is around 1.2 million tons per year.

General Rafael Alfonzo Ravard, president of PDVSA since it was created from 14 oil companies nationalized in 1975, has some pointed ideas on how to run a big company. "We have a notion here of being nonpolitical," he says. "We do not want hundreds of people to go out of the company every time there is a change of government. The position of president should not be a political reward." Now 64, retired from the Venezuelan army engineers, the General, as he is widely known, clearly has to fear for the future of his creation, PDVSA. He has already had to blow the whistle on a marketing scandal involving middle-level executives. Now the outgoing administration in Caracas has appointed Humberto Calderón Berti, the cabinet's energy minister, to replace Alfonzo as president of the company for two years. Calderón is an acknowledged oil



Truck carrying iron ore near the Orinoco
Making the Guinness book of records isn't making money.

one in them except small crews of six or so maintaining the equipment; look at one that is operating. The control room overlooking a functioning electric furnace is supposed to be air-conditioned; the air-conditioning is broken (which is bad for the electronic equipment). No two clocks on the various walls tell the same time; the broken ones go unrepaired. The employees one sees work, but lethargically. "And the pity of it is," says an executive in the oil company, "they cannot even produce steel of the kind and quality we need for drilling."

There's more. Listen to Armando Mazzei, an executive at a big neighboring alumina plant in Guayana: "SIDOR has a social role here. When a water pipe breaks in Guayana, people do not call the water authority to fix it, because they won't, or the government, because they won't either. They call SIDOR, and SIDOR fixes it, because they think that if they don't, no one else will."

expert. He is also a politician.

"You see," Alfonzo argues, "a manager has his geologists, his technical people. It takes many years to develop that certain trust between them, so his subordinates know how good he is, how he will behave, what to expect—you do not just throw that away. If you separate them, you break that bond of trust between them, and it will take many, many years to replace it."

Alfonzo's PDVSA has already been systematically milked. In 1980 the government began running up large deficits, at the same time clamping lids on interest rates, in an effort to stimulate the economy. Desperate private businesses that were denied local credit borrowed abroad to keep going, in hard currencies, and the state companies followed suit. SIDOR alone took down \$1 billion from foreign banks. When they weren't allowed to borrow long term, they borrowed short term. With no real

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Caracas line: Lusinchi, off the board

Venezuela's Dec. 4 election to replace President Luis Herrera Campíns (who by law cannot succeed himself) is looking one-sided. The top contenders:

- **Rafael Caldera.** A former president and the elder statesman of COPEI, Herrera's party. Traditionally moderate, COPEI is still a firm advocate of public sector control of basic industries. Caldera is counting on his own past popularity to overcome his association with Herrera.

- **Jaime Lusinchi.** In all the polls, by far the top contender. Leader of the main opposition, Acción Democrática (known as AD), Lusinchi has both business and, more important, union support.

- **Teodoro Petkoff.** A very dark horse: The leader of MAS, a Communist Party splinter group, Petkoff has turned up third in recent electoral polls.

Since 1958, when military dictator Marcos Pérez Jiménez was ousted by an army and civilian coup, Venezuela has peacefully elected five presidents:

- **Rómulo Betancourt** (1959-64). An active opponent of Jiménez, Betancourt set out to modernize industry and agriculture, wipe out illiteracy and expand health facilities. (Died 1981.)

- **Raúl Leoni** (1964-69). A founder



President Luis Herrera Campíns
Did he consider the view?

of AD, with a strong union power base, Leoni continued Betancourt's programs amid a period of relative prosperity.

- **Rafael Caldera** (1969-74). The first COPEI president, Caldera renewed relations with Cuba.

- **Carlos Andrés Pérez** (1974-79). The AD president who nationalized the country's oil and iron industries in 1975.

- **Luis Herrera Campíns** (1979-84). An increasingly unpopular COPEI statesman, he is widely perceived as having floundered on economic issues.—Jill Andresky

growth occurring, private businesses began to fail. To preserve employment, the central and state governments took over many of them. SIDOR got an infusion of state capital.

The first determined run on the bolivar came early in 1982, reportedly led by Citibank. The BCV—Banco Central de Venezuela—marshaled the country's foreign reserves and fought it off. But it could not fend off another run at the end of the year.

The BCV took control of government-owned companies' hard-currency deposits in September, replacing them with bolivars, and assumed responsibility for the hard-currency debt, for which it accepted payment from the debtors in bolivars. It pegged these transactions at the traditional rate of 4.3 to the dollar, but fixed another rate for tourists and visitors (lately 9.5) and let the foreign exchange rate float. The free rate shot up, at one point to 15.

A very neat trick. The burden of the devaluation on debtors like SIDOR,

which helped cause it, was neatly cut by more than two-thirds in terms of the current exchange rate. But holders of hard-currency deposits, such as PDVSA, found their assets suddenly reduced in value by nearly two-thirds. PDVSA, in fact, was the biggest loser of all, with at least \$4.9 billion in hard-currency deposits that became bolivars at the old rate of 4.3. Then \$1.7 billion of its deposits were forcibly invested in government bonds by the central bank at 15%, an interest rate below the prevailing inflation rate. So PDVSA has an investment that is shrinking at least 5% a year—and must pay a nearly 80% income tax on the interest besides. "We'll never see that money again," Padron says over his empty beer glass at Luigi's. His mood is morose. "The oil minister is a political man. The head of this company *must* be an operating man, from inside the company. He *must*." The room is silent.

Now the government is negotiating with overseas banks to refinance the

short-term debt—\$16 billion is coming due in the next 18 months—and with the IMF for a little something extra to tide it over. Meanwhile, it is meeting with the other major creditor nations in Latin America. (Venezuela, it might be remembered, was one of the cofounders, with Kuwait, of OPEC in 1962.) There is much talk now of the truly vast reserves, bigger than Saudi Arabia's, of very heavy crude in the Faja—an oil-rich district being developed well upstream of Guayana—and little said of its practical exploitability in the near future, which is very modest. The General speaks of 100,000 to 150,000 barrels per day of production during this decade—compared with depressed production of 2.1 million barrels now and existing capacity to pump 2.8 million barrels.

The debt crisis will be handled one way or another. It is not easy to repossess a country, and the oil in the ground is there. Venezuela is preparing for the obvious long-term answer—ever more oil exports. While Venezuela is observing OPEC production restrictions for the time being, PDVSA is quietly considering an interest in a refinery in Aruba and is buying into one in West Germany, and is finding natural gas to offer as a domestic substitute for oil that could be exported instead. OPEC ministers should not take Venezuelan compliance on production quotas for granted in the future.

Meanwhile, as the election draws near, the effect of devaluation—stunning price increases in or growing shortages of imported goods—must soon begin hitting the citizenry. And remember, Venezuela imports more than half its food.

That will be a fundamental problem for the successor (*see box*) to President Luis Herrera Campíns to contemplate. On one hand, he must take into account the traditional Venezuelan suspicion of businessmen and the profit motive. If he wants to replace Calderón as head of PDVSA in the next two years, he must change statutes governing the oil company. On the other hand, he will have the view from the presidential palace. From the second-story windows, he will be able to look down one of the broad, hectic avenues of Caracas, now jammed with traffic and shops, to the hill at the end of the street. There he will see the ranchos rising shack upon shack, row upon row, phalanx upon phalanx, up the hillside, like camps of a besieging army. Perhaps he will decide that business is too important to entrust to politicians. ■

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A Mercedes 450, the Golden Spirit ain't. But for Paul Zimmer it has made a lot of fun and a pile of money.

The egomobile

By Anne Bagamery

LET US NOW KICK THE TIRES ON Zimmer Corp.'s Golden Spirit. It is no ordinary automobile. Its fiberglass body, some say, can shatter on impact and the wheels can fall off without warning. The trim is gold-plated. The Golden Spirit's ride, according to one car owner, is bumpy and noisy. Better you don't inquire

into the gasoline mileage. Price? \$62,500, the sticker reads. Depreciation? The Golden Spirit loses \$20,000 the minute you drive it off the lot.

Oh, and one other thing: The Golden Spirit is a huge success.

Why this is so has to do with the coming of male middle age in the monied classes of middle America. Whatever its technical shortcomings

from the standpoint of perfectionists at Nissan or Daimler-Benz or even General Motors, the Golden Spirit speaks of individuality. For American males, at least, choice of cars no less than clothes amounts to a public expression of self-image. And for those who choose not to go ignored, an automobile that attracts attention remains a necessity. Thus has it always been.

Nobody is more aware of the quirk than Paul H. Zimmer, manufacturer of the Golden Spirit. Zimmer in 1976 was just another self-made businessman in midlife crisis. His 15-year-old company, in Pompano Beach, Fla., had weathered some tough years to become a profitable maker (with sales of \$45 million a year) of mobile homes and souped-up vans. Zimmer's 19% stock interest in the firm was worth about \$5 million, making him a reasonably rich man by southern Florida standards. But Zimmer had been divorced from his wife of 22 years and, at 47, a bit at sea, was seeking a little spice in life. For one reared, as Zimmer was, in Detroit, it was only natural to buy a new car. Zimmer's choice was a \$22,000 Excalibur roadster. "I was absolutely amazed at the reaction," he says. "From a 9-year-old boy



Zimmer Corp. Chairman Paul Zimmer with the \$62,500 Golden Spirit
Teak running boards, 24-karat-gold-plated trim, a V8 engine—and instant individuality.



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to a great-great-grandmother, it was always the same: 'Beautiful!' 'Oh, wow!' Thumbs up. I sold that car, but before I sold it I said to myself, 'God, we can do that.' "

So it was that, in 1980, Zimmer Corp. got into the business of egomobility with the Golden Spirit. A touring car on a stretched Mustang chassis, complete with teak running boards and 24-karat-gold-plated trim, the Spirit moves on a V8 engine. Hardly the kind of guzzler to introduce at a time when memories of long gas-station lines were still fresh in the minds of American motorists, and when a recession was in the making. But the first edition of 144 Spirits sold out in a few months. That generated around \$4 million to \$6 million in revenues for Zimmer Corp. at a time when few people were buying its mobile homes and vans.

The Spirit has transformed the company. Zimmer still makes mobile homes, but they contribute 69% of sales and only 33% of the firm's net income. Zimmer is making fancier motor homes; the company recently spent more than \$1.5 million to design a flashy \$105,000 job called the Astron. But for Paul Zimmer, the excitement, enhanced by the money to be made, lies in automobiles. Zimmer won't tell how profitable the car is, except to say the Spirit contributes 9% of Zimmer Corp.'s total revenues (or \$11 million of \$123 million in 1982). But Robert Wallach, an automobile industry consultant specializing in sports and specialty cars, estimates that Zimmer spends about \$25,000 to build a Golden Spirit that sells to dealers for around \$36,000—a manufacturers' margin of 32%. That works out to revenues of \$9 million on Zimmer's 1982 production of 300-plus cars.

This year Zimmer is building two cars a workday, or 500 for the year. If they sell out, the Golden Spirit will add another \$14 million to \$18 million in revenues. This fall Zimmer will turn out a jet-black Golden Spirit limousine priced at \$85,000. "It's strictly for snob appeal, for those who



Zimmer in his Pompano Beach office

"No effort is expended without profit as a primary goal."

have been accustomed to going to the theater or dinner in a standard limousine," Zimmer says, "but it's a little more of an ego trip."

Zimmer clearly has managed to have fun in his business without ever forgetting one of his favorite axioms: "No effort is expended without the profit motive as one of the primary goals." Sitting in his handsome office, its walls covered with photographs of the Spirit and of Rosina, Zimmer's beautiful young third wife, he waxes philosophic on the subject: "To be profitable is like working against the law of gravity. It's not normal or natural. You have to expend efficient energy and control, and you have to discipline yourself so that you have something left as a profit in addition to the experience. And that doesn't come naturally. It comes through effort, concerted effort."

Zimmer's concerted effort in the automotive business has consumed 33 of his 54 years. Son of a Detroit boat and auto parts maker, Zimmer dropped out of Florida Southern Col-

lege in 1949 to start a mobile-home business with his brother. The Zimmers got off to a fast start, but after 11 years the business began to sour. Inattention to financial details and inventory control, Paul says, caused the trouble. "You don't appreciate these formulas until you see how they work," he says. He quit the business to team up with another partner, who became his mentor. Working for someone else, Zimmer says, taught him the management and financial discipline he needed. In 1964, when his partner got out of the business, Zimmer took the mobile-home subsidiary public.

Zimmer developed his strategy quickly. He concentrated on what then was the high end of the mobile-home market—the \$12,000 to \$15,000 price range—and bought as many prefabricated parts as possible. That failed to insulate him fully from interest rate increases, which punished mobile-home buyers especially, but it did help keep down Zimmer's own borrowing and cost of capital.

Today the company's long-term debt amounts to only 8% of its capital. Relatively unburdened with debt, Zimmer was free to spend money on better design and engineering, using newer fiberglass and plastics technologies. Meanwhile, with plain old-fashioned good-buddy salesmanship, Zimmer recruited 1,200 mobile-home and recreational-vehicle dealers. The Golden Spirit dealers now number 75, up from 20 in 1980.

So far as anybody who follows the company can tell, things are still moving Zimmer's way. Sales of recreational vehicles rose 35% in the first quarter of 1983 as the economy recovered and gas prices came down. And the mobile-home industry seems ready for its oft-predicted renaissance, now that banks are starting to offer easier mortgage terms and zoning boards have upgraded standards for mobile-home parks.

As for Paul Zimmer, he has reduced his Zimmer Corp. holdings to 15%, but at current prices those 691,000 shares are worth around \$13 million. Sure enough, the Spirit is Golden. ■

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forget electronic games. Coming down the pike is a way to play the stock market via computer—if it can fly on Wall Street.

What's in it for your broker?

By Richard L. Stern

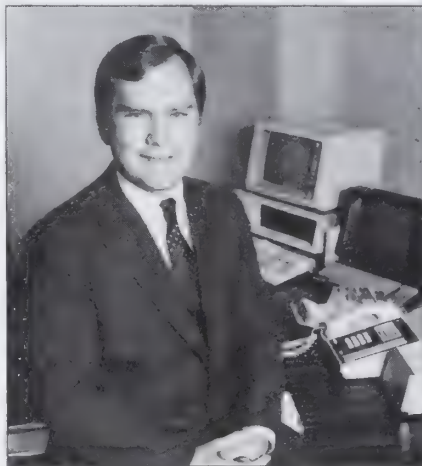
YOU ARE AN ACTIVE stock market player, idly gazing into the mirror while shaving. Suddenly, inspiration. "Oils," you whisper. "Eureka. That's the play." You like, say, Unocal. "Buy now," says that voice ringing in your head. You rush to the phone and call your broker, who gives you a price. "Buy," you yell, "a thousand shares." But the oils are already moving. By the time the broker gets that order to the floor of the New York Stock Exchange and it is walked to the proper specialist for execution, you end up missing your price. There's a little firm called Instinet that's proposing another way.

Back up a minute to your razor and mirror. "Oils," you whisper. "Buy now," says the inner voice. You rush, not to your phone, but to your home computer connected to it. You dial a number and are into the Instinet network. You type out instructions for the bid and ask about Unocal. The computer screen flashes: 32 $\frac{3}{8}$ to 32 $\frac{3}{8}$ (a recent real-life spread from a Pacific Stock Exchange specialist, who guarantees his prices are at least as good as any marketmaker in the country, including the New York Stock Exchange). You type "Buy 1,000 shares of Unocal" and hit the transmit key. Within seconds the screen flashes: "Bought 1,000 shares Unocal at 32 $\frac{3}{8}$." Seconds later a small printer sitting next to the keyboard types out the written confirmation.

Fantasy? The equipment and connection to the Pacific Stock Exchange are real, although the hookup to a nonprofessional stock market player is only in its pilot phase. But this scenario has so captured the imagination of investors that dizzying fantasy already has been built into the stock

price of Instinet. It recently was selling for 32 $\frac{1}{2}$. A year ago it was 2 $\frac{1}{2}$. Its revenues last year were \$3.4 million and earnings a mere \$17,381, or 2 cents a share. So the current stock price—forget the P/E—is an incredible 10 times revenues. For the first six months of this year, moreover, Instinet has lost money: 7 cents a share.

Instinet is not new. It was introduced 14 years ago by high-tech



Bill Lupien, president of Instinet
Is the world ready for him?

dreamers who envisioned a computerized market system to compete against the monolithic—and very resistant—New York Stock Exchange.

Instinet's original concept was to link by computer the major institutions—banks, mutual funds and insurance companies. A mutual fund, for instance, that wants to sell 10,000 shares of AT&T to a bank that wants to buy. No intervening specialist. No delay. Instinet got a commission and revenues from the equipment rentals. Fine for big customers, but not for the NYSE or the big brokers. Instinet was competing against both. Instinet lost

money through 1980.

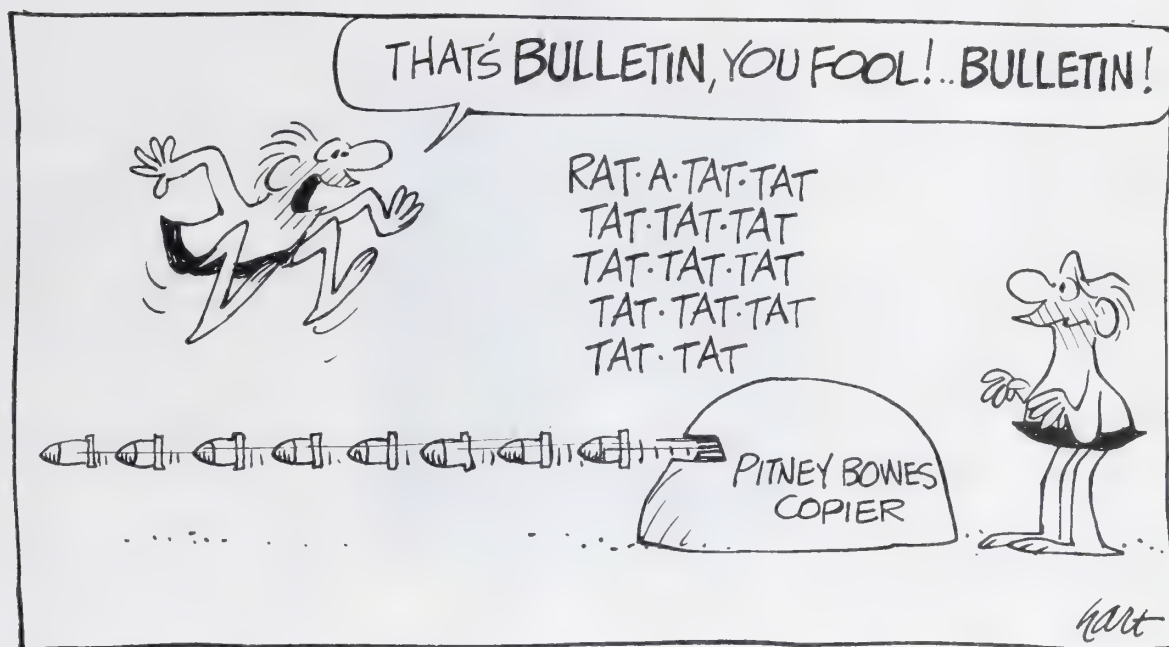
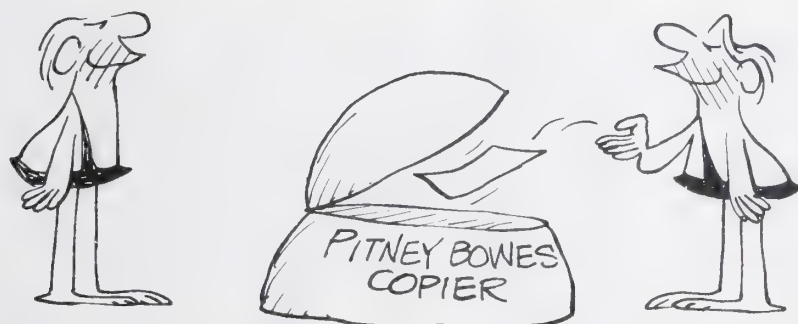
Enter, last February, Bill Lupien, the new president of Instinet, who with some partners injected \$5 million of badly needed capital in return for slightly more than a 20% interest. Lupien, who is part owner of a large specialist firm on the Pacific Stock Exchange dealing in 80 stocks, says, "We decided to turn the company's thrust around by 180 degrees." The new concept: wholesale the system through brokers who in turn can rent it to their own customers—perhaps for as little as \$100 to \$150 per month. For a large enough customer, a broker might even give it away for the commissions. The huge drop in the price of computer hardware, says Lupien, makes this possible. And with the wholesaling concept, the brokers would still get commissions when customers used the machines. Marketmakers on exchange floors also would be added to the system. Thus, customers could deal directly with specialists—or with other customers if their bid was better.

Getting the relatively small PSE was not easy for Lupien, but he did it. The NYSE? There's little doubt that's an enormous fight. Right now most orders for listed stocks from major brokerage firms automatically are shuttled to the Big Board exclusively. There's little point in the New York Stock Exchange's competing in an open auction against other marketmakers off the exchange, and maybe even against some large customers.

There's also little advantage for major brokerage firms. The retail selling systems of the large brokerage firms like Merrill Lynch are built around registered representatives' commissions and their personal contacts with customers. Think of the howls from a sales force if a customer were given the ability to circumvent them and trade directly, even if they got the commission.

Lupien acknowledges the problems but believes there are solutions. He can approach discount brokers, for instance, where buys and sells are handled by order clerks. Instinet, says Lupien, would cut their costs. It is already used by a number of discount brokers, including Mellon Bank's, but it has not yet been hooked up to customers. So Lupien can also hope that other banks and insurance companies that have come into the brokerage business might give him a try.

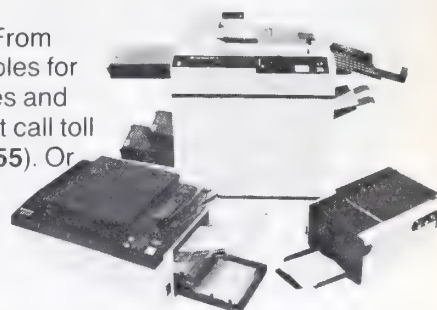
All well and good. You know in your heart that Instinet should succeed, probably deserves to succeed. Maybe someday it actually will. But what a long shot at 32 $\frac{1}{2}$. ■



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There seems to be a bit of a disagreement over Amdahl Corp. Its delay in bringing out a new computer is either "important" or "totally unimportant."

No risk, no reward

By Anne Bagamery

YOU WOULD THINK that by now Wall Street would have stopped treating Amdahl Corp. like a brilliant child with a behavior problem. Yet how else to explain the reaction to this summer's announcement that Amdahl, a computer maker with estimated 1983 sales of \$700 million, would delay introduction of its new 5880 model because of a backup in the research and development lab?

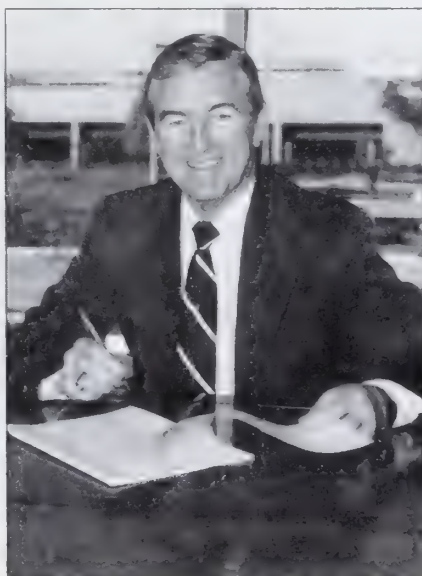
Along with other computer and technology stocks, Amdahl's shares had been sliding in price since early July. By the time the price stopped free-falling after the announcement, the shares, at 17 $\frac{7}{8}$, had lost nearly 34% of their value.

Depending on whom you talk to, that sharp drop was either: 1) an over-reaction by panicky securities analysts and investors, or 2) justifiably reflective of the damage that shipment delays might work on Amdahl.

Amdahl's problems have always seemed as formidable as its promise. Gene Amdahl, a talented engineer from International Business Machines, founded the company in 1971 to build high-performance, low-price central processing units to run on IBM software. That meant Amdahl has always had to play catch-up with IBM, outmuscling IBM's sales force to sell hardware that would employ IBM programming. Thanks to liberal spending for research and development and to management's success at coaxing money from banks and institutional investors such as Fujitsu (owner of 31% of Amdahl's shares) and Heizer Corp. (owner of 20%), Amdahl managed to pull off one product coup after another in the succeeding years.

The 580 series of mainframe central processors, which now has caused all

the consternation, promised the latest coup. Amdahl introduced the 5860 model in the line earlier this year. Amdahl has also introduced a storage device, the 6280 disk. Development costs of both items helped depress Amdahl's 1982 earnings to just above break-even, but in 1983's first quarter the company more than made up the ground. The 5860, offering better per-



*Amdahl Chairman Eugene White
Other things up his sleeve.*

formance than the comparable IBM product, has been a sellout. The disk has had moderate success. Amdahl's earnings were up 92% from 1982's first quarter, and Amdahl stock surged to a four-year high (adjusted for splits) of 29 $\frac{7}{8}$ by midsummer.

But there were rumors that the next 580 series model, the 5880—essentially two 5860s linked together for greater processing capacity—was having engineering problems. When Amdahl announced to the public in Au-

gust that the 5880 was being pushed to a back burner to speed development of other products, Wall Street's disappointment—in some quarters, at least—was palpable.

"Any delay is important," says John McManus, a securities analyst at Bear Stearns. "If Amdahl can't ship big machines on time, they lose credibility in a marketplace dominated by IBM—and they can't afford that."

But Peter Labé of Smith Barney pooh-poohs the very idea. "The 5880 is a totally unimportant machine, compared with what else they've got," he says. "If they told me it would be delayed until 1990, it wouldn't bother me."

In all probability, the truth lies somewhere in between. The market for large central processors and peripheral gear remains volatile. A company like Amdahl may ship only 200 machines in a good year, but at a cost of \$1 million-plus, the earnings leverage is large. Because of Amdahl's partly competitive, partly parasitic relationship with IBM, Amdahl's earnings volatility is even higher than most. It must wait until IBM delivers a new machine before it can fully develop a competitor that still must reach the market fast enough to snatch sales from IBM. And then Amdahl has to live with the possibility, real or perceived, that Fujitsu will one day walk away from its partnership position and enter the U.S. marketplace as a competitor.

Eugene White, Amdahl's chairman and former deputy to Gene Amdahl (who left in 1979 to form another computer company), is a bit bored with all this analysis. "We've got a lot more up our sleeve than this one box," he says. And, in fact, he has: Amdahl has spent 30% of its \$150 million-a-year R&D budget to bring out new disk drives like the 6280 and networking devices to broaden Amdahl's product mix. One reason the 5880 was delayed, he adds, is that Amdahl is stepping up production of another 580-series computer, the 5870—two closely linked 5860s, like the 5880, but with a shared memory. "We perceive greater demand in the marketplace for the 5870," he says. "It's just good business to bring that box out first."

If White has judged the computer market correctly, the stock market's anguish over Amdahl should be directed elsewhere. Probably it won't be; the market loves to emot. In any case, Amdahl may at times seem to teeter on the brink, but it has always wound up on solid ground. Remember: Without risk there is no reward. ■

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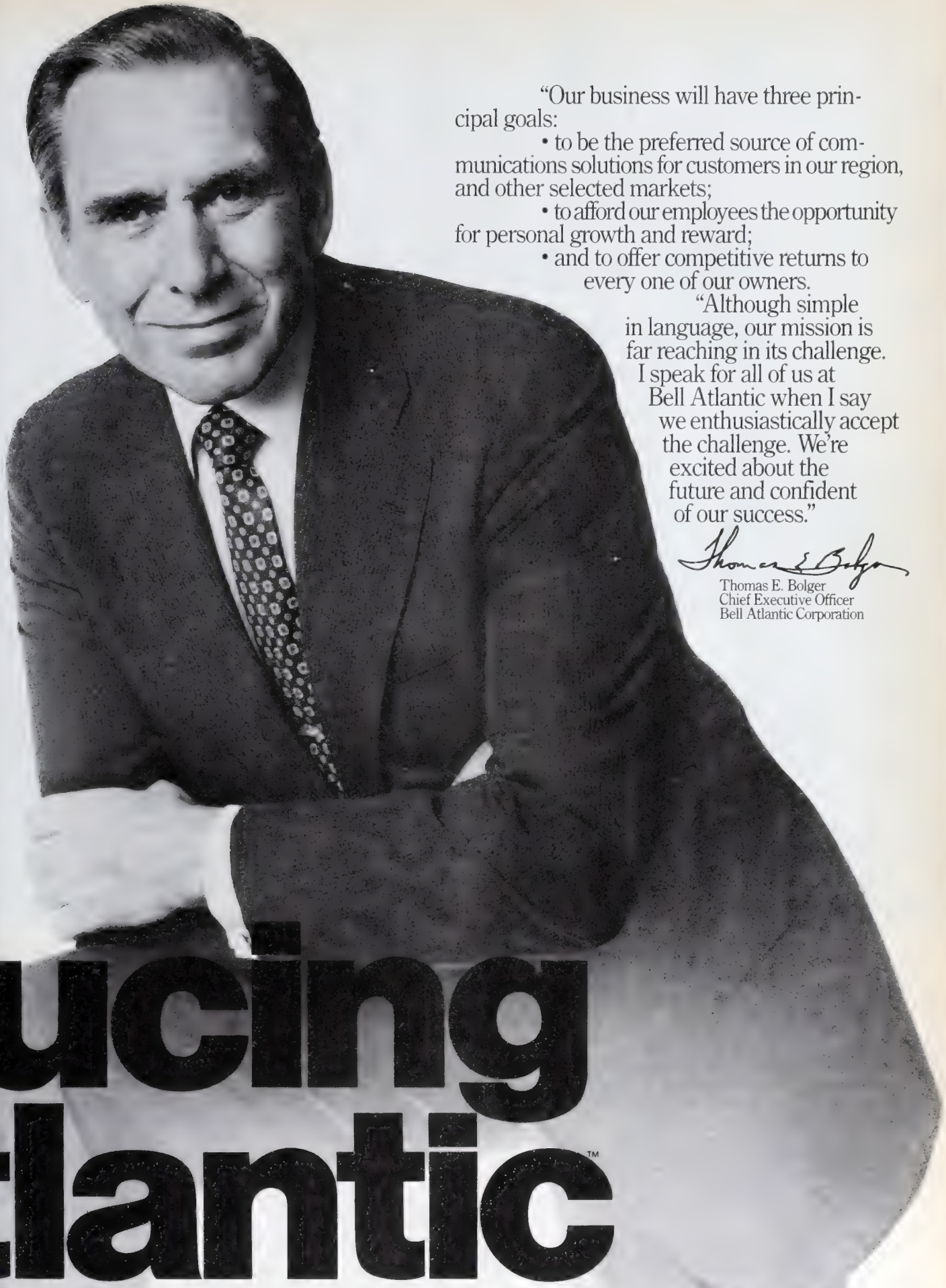
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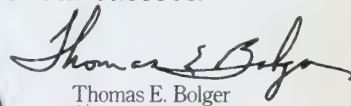


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Can you count a subsidiary's earnings as your own while ignoring its debt? The answer starts lots of arguments.

The best of both worlds

By Anne McGrath

OVER THE LAST SEVERAL YEARS, a number of large corporations have become ever more reliant on their own finance subsidiaries. No wonder. With interest rates fluctuating wildly, the ability to provide credit to customers can guarantee many a sale.

That's why most finance affiliates were set up. As a by-product, of course, these credit organizations can provide a large chunk of corporate earnings—and their recent growth has often raised profit contributions accordingly. But this poses problems for investors and accountants. Current reporting rules create considerable confusion about how to deal with these subsidiaries.

Should a corporation consolidate a finance sub's balance sheet with its own? Or should its assets and liabilities be relegated to a footnote? The answers to these questions can have a dramatic impact on financial statements.

You might think that the accounting rule makers wouldn't approve of corporate books that don't consolidate such huge numbers. According to doctrine that predates the Financial Accounting Standards Board, however, it "may be preferable" for a parent company to issue separate statements for subsidiaries engaged in significantly different operations. But when it comes to earnings, the situation is different: Corporations are usually required to add in percentage of a subsidiary's profits

equal to their percentage ownership of that subsidiary.

Result: A company can show a lot of income from its subsidiary without showing a speck of debt. Don't misunderstand. Nobody is breaking any rules here, and there are those who argue that consolidating subsidiaries would be even more misleading than not consolidating them. But an invest-



tor who wants to know what's really going on should make it his business to investigate the finance sub as well as its parent.

The problems arise from the nature of finance subsidiaries. Since the typical credit sub exists primarily to finance the operations of the parent—most commonly by extending credit to customers and dealers—it is usually much more highly leveraged than a manufacturing company or a retailer could ever afford to be. So, nonconsoli-

dationists claim that separating the subsidiary's assets and liabilities from the parent's makes for a clearer picture of the parent's financial status. The greater the breakdown, the more meaningful the information, particularly if the subsidiary does more than merely finance transactions for its parent.

There's a certain logic here. The funds GE has tied up in its credit arm, for example, are entirely different from the cash in corporate bank accounts. "Some say it doesn't make sense to add all the numbers together," explains Robert McLendon of Arthur Young, "particularly when the sub is an independent borrower. The people lending want to look at the company they're lending to. If they're lending to the parent company, they want to look at it independent of any subsidiaries that are borrowing elsewhere and whose assets may also be restricted."

This argument, however, is less valid for so-called captive subs, like those at Ford and General Motors, whose primary purpose is to finance sales for the parent. Such captive subs—which make up a good number of the largest financing arms—would find it difficult making the argument that their business is in any real way independent from that of their parents.

By contrast, noncaptive subs such as Borg-Warner Acceptance Corp., General Electric Credit Corp. and Westinghouse Credit Corp. are aggressive lenders in other areas. Obviously, it makes less sense to consolidate these more venture-some subsidiaries; their ties to a parent's business are usually far looser.

Even though the reasons for keeping any subsidiary off the balance sheet may be pure, there is clearly the side effect of showing less debt. Harvey Moskowitz, national director of accounting and auditing at Seidman & Seidman, points out that removing large amounts of debt can present a more favorable impression of debt-to-equity ratios, working-capital ratios and the returns on assets invested in the business.

Naturally, an astute investor can find the numbers he wants by looking carefully through the annual report. When a firm opts not to consolidate a subsidiary in its financial statement, it must provide summarized information on the sub's assets, liabilities and operating results if they are material

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THE TECHNOLOGY FOR THE JOB AT HAND.

GRUMMAN



Numbers Game

to the company as a whole. But how many investors read an annual report, much less the footnotes?

A couple of examples highlight the potential problems: The J.C. Penney Co., for example, does not consolidate its captive sub—the J.C. Penney Financial Corp.—when it tallies its balance sheet. But income from the sub does appear on the company's income statement as a reduction of interest expense, and Penney's investment in Penney Financial shows up on the balance sheet with investments and advances to its three unconsolidated subsidiaries.

So, although Penney's long-term debt last year seemed to be only \$1.4 billion—42% of stockholders' equity—if you add in its finance sub, long-term debt leaps by \$815 million. Presumably, it's now 68% of equity.

Paul Hubbard, treasurer of J.C. Penney and chairman of its finance sub, doesn't think he is misleading investors. "In the financial review part of our annual report," Hubbard says, "we try to put the figures together and explain them in such a way that the impact of both the parent and the subsidiary on interest expense and leverage are clear."

Maybe so. But Howard Hassler, Al-

lied Stores Corp.'s senior vice president for finance, feels differently. "We consolidate Allied Stores Credit Corp. in our financial statements because we believe this is better financial reporting," he says. The Credit Corp. last year accounted for 14% of the parent's debt and liabilities and for 10% of its earnings.

Differences of opinion like this are what keep the accounting rule makers busy. Not surprisingly, the FASB is investigating the general issue of consolidation, paying particular attention to finance subsidiaries. At the same time, Standard & Poor's is refining a rating method that treats every firm with "significant" receivables as if it had a captive finance sub. Under the new system, the rating service fully consolidates the two operations and then analyzes them separately before conclusions are drawn. "We feel there's an integral relationship between the

The iceberg cometh

Investors who really want to understand companies with unconsolidated finance subsidiaries have to look past the parents' balance sheets or risk missing out on important information. Huge liabilities and assets, which are frequently tucked away in subsidiaries' financial reports, can throw off standard ratios like debt-to-equity and return on assets. Below, a look at the liabilities of ten major unconsolidated credit subsidiaries.

Company	Liabilities (bil)	
	corporate parent ¹	finance subsidiary ¹
Borg-Warner ⁴	\$ 1.1	\$ 2.4 ²
Chrysler	5.3	2.9
Deere	3.5	1.7 ³
Ford Motor	15.9	14.3
General Electric ⁴	11.4	11.5
General Motors	23.1	40.2
International Harvester	3.7	3.4
JC Penney	3.5	1.5
Montgomery Ward	2.4	2.6
Westinghouse Electric ⁴	5.2	2.3

¹Excludes intercompany debt, where disclosed. ²Includes two finance subsidiaries. ³Includes other subsidiaries. ⁴Financial subsidiaries, while wholly owned, are not captive.

captive and its parent, and that their risk of going bankrupt is equal," says Miles Federman of S&P's.

That's probably correct. But today's accounting conventions make it easy for investors to miss half the picture.

Not funny

A practical joke that children often enjoy involves planting a purse with a cord attached to it in the middle of the sidewalk. When an unsuspecting passerby reaches for the

purse—yank—it moves away.

You would hardly expect Congress and the IRS to try such a ploy. But it's exactly what they have done. About 18 months ago the folks in Washington took some steps which were intended to make it easier for small and medium-size companies to use LIFO accounting. By valuing goods sold at current rather than original cost, this cuts taxes and increases cash flow.

The inducement, however, is a bit like the purse in the practical joke, and the expected flood of conversions just hasn't materialized. "Few companies have found the new 'simplified' approach advantageous," explains Lawrence Portnoy, a partner at Price Waterhouse. Of course, the pressure on companies to switch to LIFO has lessened with the inflation rate. But there's more at work.

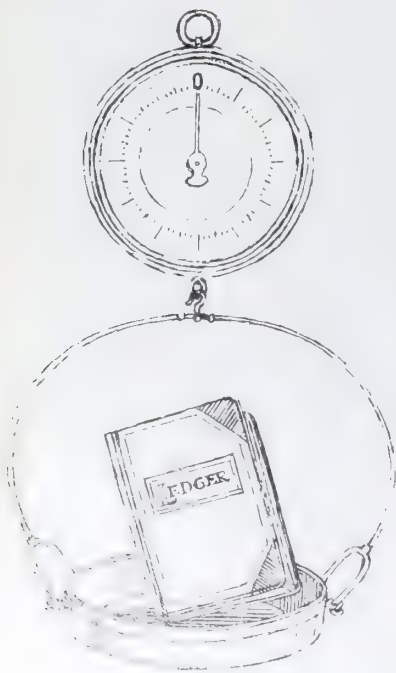
Here's the story: The IRS lessened the complicated record-keeping associated with LIFO by allowing companies to use government-prepared inflation indexes instead of calculating their own inflation rates for inventory. This was supposed to save the companies time and money, which it

costs them to keep track of specific price levels for their inventory.

But—yank—the IRS allowed companies (except those with under \$2 million sales) to use only 80% of the government-prepared figure in making LIFO calculations. That means they get only 80% of the cash flow benefit. "It's the penalty for making life easier," says Ernst & Whinney's Steve Leifer with a sigh.

No doubt, the IRS has taken steps in the last several years to make the transition to LIFO simpler in some ways. For example, financial officers, who are jittery because LIFO usually lowers reported earnings, have been allowed since 1981 to explain, in the annual report, what the generally better-looking results for other inventory methods would have been.

Nonetheless, many accountants are more than eager to collect fees for helping convert to LIFO. And a number of them are disappointed to find that few companies are rushing to make the change. After all, says James DeLoach of Arthur Andersen, "80% of a benefit is better than nothing at all."—Laura Saunders





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in business school, Chairman Carl Pehlke of Texscan studied marketing. But he learned it only in the real world, and then by making mistakes.

Poor no more

By Toni Mack

AT LAST, Texscan Corp. Chairman Carl Pehlke has slipped off his old Seiko and snapped on a solid-gold Rolex. Mrs. Pehlke now wears diamond earrings. Several other Texscan executives have become millionaires, and Texscan itself

now deals with the big boys in electronics. Four months ago it laid out \$15 million for General Telephone & Electronics' loss-ridden cable TV equipment business. All of that is nearly enough to make Pehlke forget the cost: 18 years of hard and often fruitless work, during which he lost two-thirds of his stomach—to ulcers

induced by worry. Slouching on a couch in Texscan's Phoenix office, Pehlke says, "We were beat up so long, you can't imagine."

Yet Texscan has succeeded in one of the toughest businesses around: cable television equipment. The financial strength of the customers, operators of cable systems, has failed to live up to expectations. Cable technology changes fast. That has taken its toll of equipment makers, many of whom have suffered from some combination of price pressures, shrinking orders and new-product flops. Texscan, however, in the fiscal year ended Apr. 30, posted a year-to-year gain of 31%, to 89 cents a share, in earnings; in 1977, its first big year in the cable business, the company earned just 5 cents a share. Net profit margins have widened since, from 1.6% to 10.4%, up there with Apple Computer's.

There's a good reason Texscan has avoided the pitfalls of cable. Pehlke, a University of Chicago M.B.A. in marketing, made plenty of costly mistakes, but he learned plenty from them. Texscan was in trouble the day it was born in 1965. Pehlke and James



Texscan Corp. Chairman Carl Pehlke

"We were beat up so long, you can't imagine."



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The Up & Comers

A. Luksch, now executive vice president, had quit a tiny electronics company when, Pehlke says, the boss reneged on a pledge of stock ownership. Banking on a loan to come from a small-business investment corporation, Pehlke hired 25 employees to begin designing radio-frequency test equipment, such as oscilloscopes and sweep generators. His former employer sued, and the SBIC backed away. (Much later, the suit was settled.) Panicked, Pehlke lined up a "sugar daddy," as he calls the local restaurant owner, to carry payroll, in return for stock warrants, for a few months.

But more money was desperately needed. As a last resort, because no underwriter would touch him, Pehlke managed a do-it-yourself underwriting under Regulation A of the Securities Act, which permits a simple and inexpensive registration of shares to raise capital, then limited to \$300,000 an offering. Pehlke enlisted local stockbrokers to push the shares of his troubled venture. That money, too, went quickly. To clinch a few fast sales of sweep generators, Pehlke took handmade prototypes to the first trade show on the calendar—in Germany. "We should have waited," Pehlke says, "but we were so desperate for orders that we did it. It was the mistake of our lives." German engineers examined the innards of Texscan's equipment and found, to their horror, no spiffy production-line models, but boxes of messy soldering and tangled jumper wires. Sales were scant. "It was almost our downfall in Europe," Pehlke says.

From that experience Pehlke hammered out two iron rules: Raise money before you need it, and never take an untested product to market. In July 1980 the price of Texscan's stock, now traded on the Amex, began a long rise. In November it was still climbing, so Texscan sold \$9 million worth of shares in a public offering. When, six months later, the price was still rising, Pehlke went back to the market for \$12 million. Most of the new cash he merely banked. Texscan's interest income amounted to 28% of its pretax income in fiscal 1982. And Pehlke had a fair amount of cash on hand when acquisitions came his way. In 1982 he bought a manufacturer of converters, which translate cable signals into TV receiver signals, and slowly developed addressability, permitting the cable operator to change a customer's channels without sending a serviceman to the customer's home.

In the market for addressable converters, competitors, notably Oak Industries and Scientific-Atlanta, have suffered from hastily introducing products with faults. But Texscan waited until it got the bugs out and will ship its first order next month.

Pehlke's nerviest acquisition was GTE-Sylvania's cable equipment line, which roughly doubled Texscan's sales, from \$55 million, and rounded out its offerings in amplifiers and converters. That acquisition did leave Texscan with a lot of debt, so in June the company sold \$40 million in convertible debentures, of which it kept \$24 million in cash. Long-term debt now accounts for 49% of capital. Considering the state of the cable equipment business, that's a big load. The business has already seen some hard times, and it is unlikely to get much easier. Construction of new cable systems, on which operators spend around \$20,000 a mile, has probably already peaked and will begin to fall off steeply in the mid-1980s. Operators will continue to improve old systems but will spend less than \$4,000 a mile on them. "It's a shook-up market out there," notes analyst Kenneth Lucas of Moseley, Hallgarten, Estabrook & Weedon. Moreover, in selling securities when it wasn't absolutely necessary, Pehlke has diluted his own and other shareholders' interest in Texscan by 18%.

The tradeoff will look good if Pehlke can make the Sylvania acquisition work. Sylvania lost money not because of shoddy products, he says, but because it failed to cut costs enough. Pehlke has pared across the board: labor, inventory, materials, overhead. "I think we made money the first month," he says, knocking on the coffee table in front of him. Any Sylvania profits eventually will reflect in Texscan's stock price, which, at 20¾, is already up 1,200% in less than four years and amounts to 23 times earnings. If the stock price gets to 45, Pehlke can force conversion of the debentures and take a load off his balance sheet.

Meanwhile, Pehlke hopes he will need the \$24 million left over from the debenture offering to expand capacity for TRACS, a converter system that sits on an exterior wall or telephone pole instead of a TV set. It's meant to foil customers who steal cable service by fiddling with their converters. Cable system operators have been slow to be won over, but Pehlke signed a contract for TRACS hardware worth around \$17 million last month. Now he is negotiating a contract that may be worth \$150 mil-

lion over seven years.

Pehlke is looking to Europe, where many big cable systems have yet to be built, for growth. Only 9% of Texscan's sales last year were in Europe, and they were mostly sales of radio-frequency test gear. In May, though, Pehlke sold \$4.2 million worth of converters to British Telecom. He is now trying to work out a joint venture with a German cable equipment company to sell equipment in Germany, where Texscan made its first, disastrous sales pitch 18 years ago. Pehlke cannot yet be said to have the company's future wired. But if he succeeds, it will be in part because he kept to a few simple rules.

There is a third, more personal rule, which he puts thusly: "The way we operate, we have to buy a lot of things for our wives or we won't keep them, because we're not really around." Hence Mrs. Pehlke's diamond earrings, which he gave her for her last birthday just before he flew off for a cable convention in June in Houston. Pehlke can easily afford such baubles. He holds \$5.4 million worth of Texscan stock. How many other Reg A promoters can claim as much?

Grow, or else

For a small company, Base Ten Systems, Inc. has plenty of work in sight. Contracts to provide electronic aircraft gear for the North Atlantic Treaty Organization (NATO) have assured Base Ten of at least \$100 million in sales through the year 2000. For several years now, profit from the NATO business has come in to fatten the cash account. That, quite naturally, has delighted management and shareholders. Yet the company's obvious success in landing its lucrative NATO business fails to obscure some big questions: Where does Base Ten go from here? What does chairman Myles M. Kranzler do for an encore?

Flash back to 1975 to see Base Ten's predicament in perspective. Then, as now, the question was how to grow. Base Ten, in Trenton, N.J., was desperately searching for markets for its products in telemetry, the measurement and electronic transmission of data from remote areas by radio. The field was crowded, the market stagnant. "We had to grow or die. The only way to grow was to get a larger piece of the pie," recalls Kranzler, known around the office as Mike.

As it stood then, Base Ten's piece of pie was minuscule. In 1974 Base Ten had made \$124,000 on \$3 million in sales. But by the end of 1975 the company would lose \$270,000 and sales

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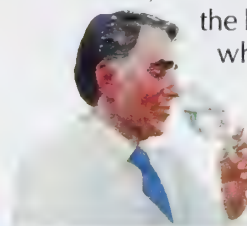
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The apple never falls far from the tree. For which our drinkers to this day are profoundly grateful.



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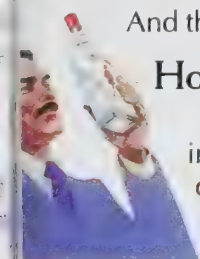
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was distilled Thursday, January 7, 1982, under the supervision of Thomas Bowman, Master Stillman,

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The Up & Comers

would drop one-third, as compared with the year before, to \$2 million. Kranzler, Bill Errickson and Jim Eby, all engineers, had to grapple with the biggest decisions required of them since they struck out on their own and founded the company nine years before.

"We made three wagers," Kranzler says. "We bet about \$100,000 each on design work for the Cruise Missile program; finding more work for our data acquisition system [the company's basic telemetry business]; and on a bid on the Tornado program for NATO." The Cruise Missile bid sank

when LTV Corp., the prime contractor with whom Base Ten was working, failed to get the contract. But the search for additional telemetry work went well enough. And the bid to work on the Tornado, a fighter used by West Germany, Italy and the U. K., scored a direct hit. Base Ten beat out three European companies and won a \$2.5 million contract for the Tornado's principal weapons controller. "We thought we would be fat, happy and rich after we got the contract," Kranzler recalls.

That was pretty much the way it turned out, too. The prototype led to additional contracts for the Tornado, best known for wings that can change position in flight and for its ability to

fly underneath radar at high speeds. About \$135,000 worth of Base Ten equipment goes on each Tornado. The Tornado work has given Base Ten a 29% return on equity over the past five years, compared with the aerospace and defense industry average of 18%. Base Ten stock, at 13½, trades at around 20 times earnings.

But consider: In fiscal 1983, ending next month, revenues will rise by about 3%, to \$19 million or so. But earnings will be down 11%, to \$1.9 million. Thus, for the first time in seven years, Base Ten will fail to show a year-to-year increase in both net income and margins. The pace has slackened because NATO nations are stretching out payments for Tornado



Base Ten Chairman Myles Kranzler

"We thought we would be fat, happy and rich."

The Up & Comers

work. And that underscores the problem facing Kranzler.

"We could just take care of the Tornado program," he says. "It would be safe and profitable. But that's not why people invested in this company." Kranzler is sensitive to the shareholders' point of view. He and other insiders own a 31% block of voting stock. "We have to grow," he says.

So, back to risking money. The budget for research and development, about \$50,000 in 1979, will grow to more than \$1 million this year. Kranzler hopes to land business in the U.S. defense industry. Base Ten has now accumulated \$7 million in cash and equivalent to be used to hire more engineers and to prepare bids for defense contracts. Base Ten has invested \$1.8 million of its own money to design weapons control systems for the F-20 fighter aircraft being built by Northrop Corp., which hopes to land U.S. and overseas orders. So far, however, orders haven't come in.

Kranzler is also researching a distant cousin of the defense market, home security systems using electronic sensing devices. Base Ten has actually developed a home security system to connect with telephone lines that, senior vice president Errickson says, can be installed, maintained and monitored less expensively and with greater security than others on the market. Kranzler plans to sell the system through the seven regional telephone companies to emerge from the American Telephone & Telegraph breakup next January. "They all will be looking for revenue and we can provide it," Kranzler says. "They can charge for providing access to our system."

The system is being tested in seven cities in the U.S. and being sold in Canada. Kranzler says it can be modified to fulfill the dreams of electric and gas utilities everywhere: to take meter readings simply by dialing a customer's house and taking the numbers over the wire. "To utility companies," Kranzler says, "home monitoring is better than sex."

But, like other erotica, the dream may be more spectacular than the reality. The proliferation of different meters employed by utilities so far has frustrated remote meter-reading. Even if the equipment gets standardized, there's no guarantee that Base Ten will win meter-reading contracts from utilities, although Kranzler says Base Ten's technology does give it a year's lead over the competition. That

includes AT&T itself. But AT&T is not likely to lose interest. It already markets an alarm that automatically signals the fire station or someone else at the first sign of smoke.

It all means that Base Ten will find steady increases in sales and earnings harder to come by, unless and until domestic defense work and the alarm business become realities. Yet

Kranzler professes no great concern. "I don't give a damn about the quarters," he says. "Sure, it would be nice to announce that this is the 39th consecutive quarter to show an increase. But I am thinking about what this company will be like in 10 years or in 20 years." Kranzler, who is 55, adds: "I plan to be sitting behind this desk in 20 years."—Paul B. Brown

Standing in the sunshine

In 1967 a bunch of stereo buffs at Massachusetts Institute of Technology, working out of a janitor's closet, managed to parlay their knowhow in electronics and the novelty of Japanese stereo into a business that has grown into Tech-Hifi. With 65 stores between Boston and North Carolina, Tech-Hifi has become a leading stereo retailer in the East.

Too bad, in a way. Today, stereo retailing offers one heck of a way to lose your shirt. Nobody, it seems, sells for any but the lowest price, and profit margins have crumbled from the onslaught of new products like VCRs, which are competing for the consumer's dollar, along with the likes of Crazy Eddie. "We will do about \$60 million [sales] this year," says Sandow S. Ruby, cofounder of Tech-Hifi. "We will lose money."

Even worse, Sandy Ruby is no longer enamored with the business. Weep none too loudly, however. At 42, with lots of money, Ruby has options, as the tank-thinkers put it, not readily available to unemployed pipefitters. When not playing with his eight personal computers, Ruby is starting up his voguishly named Micro Software International Inc., outside Boston. From all his successes and mistakes in stereo, Ruby believes, he has learned how to create a successful software business, even though the competition and profit erosion in stereo is now also at work in computers.

Ruby says the school of hard knocks has worn down his youthful callowness. Of the way he and his associates used to run Tech-Hifi, he says: "Fifteen years ago, we would not have changed anything. We were a bunch of MIT smart asses. We could do differential equations. We had to be smarter than merchants. What did that do for us? A lot of damage."

For example: Tech-Hifi salesmen, generally college students, knew all the technical workings of stereo inwards, but they gave static to customers who preferred sleek styling, say, to maximum fidelity. "We never asked the customer what he wanted," Ruby

says. "As a result, we stocked merchandise people didn't want."

At Micro Software, Ruby has surrounded himself with marketing pros. He thinks he has found two ways to compete with the likes of Micro Soft (not to be confused with Ruby's own upstart Micro Software) and VisiCorp. For one, he intends to write programs for whatever computer happens to be hot. But, of course, everybody else in software wants to do that, too. Second, Ruby plans to exploit his contacts in foreign distribution, which he made in the stereo business. "There are certain programs that are hot over there, that we haven't heard of," Ruby says. He also thinks that he can introduce U.S. programs to Europe through his distribution connections.

Micro Software went into business in the spring. The company is projecting sales of more than \$4 million its first year, a third of that coming from overseas. But software in 1983 is unlike the stereo business in the mid-1960s. Now there are established companies and Ruby will be fighting for shelf space instead of controlling the shelf.

Perhaps most surprising, though, is the lesson Ruby did not learn from his stereo days. When Tech-Hifi first started, Ruby says the financing was done with "smoke and mirrors." So you would expect that Ruby, for his software business, would have lined up significant lines of credit or venture capital or even sold shares to the public to raise money. He hasn't. "Financing is something we are just not good at," he says.

Even so, Ruby says, "We made an awful lot of mistakes in the stereo business and still we were able to grow at 20% a year. The reason is, we were standing in the field of sunshine. The market was expanding all about us. The stereo business is no longer like that, but software is. Right now, we all are standing in the sunshine. I think the market is going to be big enough to support us." Well, it happened once before. Maybe it will happen again.—P.B.B.

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Like a persistent ghost, toxic substance litigation can come out of a company's distant past to haunt it to death.

"Gotcha"

By Richard Greene

Let's say you had a guest for dinner in 1943. You had a lovely time and served a particularly delicious dinner. It's now 1983 and you get a call from your guest's lawyer. It turns out that something he ate at your house 40 years ago has caused him to become very ill. He's suing you for millions of dollars.

Sound like a nightmare? Well, it is coming true for companies involved in toxic substance litigation. The claims stem from products as diverse as asbestos, Agent Orange, formaldehyde and dioxin. In virtually every situation problems caused by something sold years before are haunting manufacturers today.

But defendants have some hope of relief. Congress is considering legislation that would eliminate manufacturers' liability on some products made more than 25 years before a suit is filed. The proposal would also require plaintiffs to prove that manufacturers were aware or should have been aware that their products were defective when they put them up for sale. Suits already filed would be unaffected, but such a measure would reduce the chances of recovery on new toxic substance claims.

Another proposal could dissuade plaintiffs from going to court. There is growing pressure from a number of trade associations to establish industrywide superfunds to provide compensation for victims of toxic substance diseases. That way many companies would share burdens now borne largely by a few highly visible

defendants like Dow Chemical Co. or Manville Corp.

Even as these reforms are being debated, however, damage claims proliferate. No one argues that individuals suffering because of exposure to toxic substances don't deserve some kind of



compensation. But when you start trying to figure out who should pay, the trouble begins.

You might think it would be a simple matter. The injured party sues the manufacturer, and the manufacturer turns the claim over to its insurer. Not so fast. "Corporations rarely have a single policy with a single carrier covering a period of 20 or 30 years,"

explains Arthur Olick, a specialist in defending companies from this kind of litigation and a member of the law firm Anderson Russell Kill & Olick. "There are changes over the years in carrier and type of policy. So the question arises as to what triggers insurance coverage," Olick explains. "What triggers liability? Is it exposure to the substance, manifestation of the disease or both?"

Though this issue has been widely litigated, Olick sees only one common thread among the decisions: "Almost universally they favor the policyholder rather than the insurance company. But there's still no predictability. And the insurance companies have almost always been resistant to making payments. The companies haven't paid willingly." Result: Several manufacturers have sued their insurance carriers for wrongful refusal to pay.

If your reaction to all this is that it really doesn't matter who pays as long as the injured party gets what's coming to him, you are missing the point.

All the bickering between plaintiff and defendant and between defendant and his insurer is expensive and time-consuming. At every level the lawyers take their bite. The Rand Corp. released a study in July, for example, that says only 37 cents out of every dollar spent on asbestos litigation actually reaches the hands of the plaintiffs. Manville Corp. reported a similarly frightening ratio in its Chapter 11 filings.

Given the trends in scientific investigation of toxic substances, things may get worse. "Nobody is immune," says Olick. "You hear about a study in Timbuktu and realize every substance is suspect. Today's coffee can be tomorrow's asbestos."

That's why some combination of a superfund for payments and a statute of limitation on claims could make life better for everyone—except the lawyers.

A measure of survival?

For years now Allstate Insurance Co. has paid its new agents with a combination of commissions and a minimum salary guarantee, based in part on previous earnings. The object, presumably, was to give trainees an assurance that they wouldn't starve, while still keeping them hungry for their commissions.

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On the Docket

Sound reasonable? Well, it didn't to Lola Kouba, 35, who took a job with Allstate about ten years ago. "Soon after she began working, it became clear to her that all the men had a higher minimum monthly guarantee than she did," says her lawyer, Judith Kurtz, a staff attorney with Equal Rights Advocates, Inc., a public interest law firm in San Francisco that deals exclusively with sex discrimination suits. "My client agitated and she was given a slightly higher minimum guarantee. But she still felt she was being treated unfairly, so she filed suit on behalf of all the other female sales agents and trainees at Allstate."

Kouba received a summary judgment in her favor. The judge concluded that since Allstate used prior earnings information to help set its minimum guarantee, the company should make sure previous employers weren't discriminating. Otherwise, Allstate's policies merely reinforced existing inequities.

That decision was overturned on appeal, but the Kouba case isn't over. Lawyers for both sides think it may ultimately be resolved in the Supreme Court. In the meantime corporate lawyers are watching the proceedings carefully. If Kouba wins, not only will Allstate have to fork over millions of dollars to a sizable number of female sales personnel, but thousands of other firms soon may be in court facing similar complaints.

What's more, this case could end the practice of basing a new employee's pay on past salary, something that is common in much of American industry. Attorney Kurtz points out that women, on average, earn only 59 cents for every dollar earned by men. So, her logic runs, any system that bases current salaries on previous income simply perpetuates old wrongs. "This is an entry-level position," she says of Kouba's Allstate job. "These workers are not people who are required to have any experience or training. If you were a male truck driver making \$30,000 a year, you would start with Allstate making more than a woman who had done insurance sales and made \$20,000."

Allstate and its lawyers, however, claim that Kurtz and her client totally misunderstand the purpose of the minimum guarantee. "It is not intended as pay," says Shayle Fox, a partner in the Chicago law firm of Fox & Groves. "After new employees are trained, in eight weeks or so, they

should be earning in excess of their guarantees. That money is simply an estimate of what it would take for a person to survive during the period of time when he starts selling insurance. And a measure of survival is what someone was surviving on be-

fore he took the job."

So, Allstate's lawyers claim, the company was hardly discriminating. It was just trying to do business in the best way it knew how. These days, unfortunately, the law may require higher standards.

My lawyer, the nurse

Comedian Alan King used to tell stories about doctors who were so specialized that they would only take care of your left thumb. Well, doctors don't have a patent on specialization. Consider the growing number of nurse-lawyers.

No, that isn't a typographical error. There are now over 350 men and women who either have degrees in both nursing and law or will soon have those degrees. Given the steadily growing number of medical malpractice suits, this is a specialty that just had to be created. If you are a plaintiff, it helps immeasurably to have a lawyer who can sling medical jargon with the doctors. If you are a defendant physician, it helps just as much to have somebody who understands how you do your job. And if you are a hospital administrator who wants to reduce your risk of debilitating and

expensive malpractice litigation, a nurse-lawyer will gladly offer advice—for a fee.

Sandy Berkowitz, a 36-year-old nurse-lawyer who graduated from the Temple University School of Law in 1978, is currently a hospital risk management consultant with Johnson & Higgins, an insurance broker and management consultant. Berkowitz is also vice president of the American Association of Nurse-Attorneys.

How do they help clients in malpractice litigation? "We not only understand the inside of a hospital," she explains, "but we also appreciate the way things are going to look in court. How 'confidential' a given document is, for example. It's amazing, but when you say to a doctor, 'I just know, from my experience, that what you told me isn't true,' they look at you very differently."

More and more, aggressive M.B.A.s are spurning a desk at corporate headquarters. They'd rather be—brace yourself—on the plant floor.

Nuts-and-bolts bosses

By John A. Byrne

SOMETHING UNUSUAL is happening at Harvard Business School these days. On the Boston campus, where investment bankers and management consultants routinely dangle high-paying job offers, there is a newfound interest in the shop floor.

Students may once have turned up their noses at the idea of working in the gritty, grimy world of production, but not today. "Graduates are definitely moving toward line jobs and

away from staff positions," says Placement Director Parker Llewellyn. Why? That's where the opportunities are. Corporations as diverse as Cummins Engine, General Motors and Raychem are among those actively recruiting M.B.A.s for front-line operations jobs.

This change of emphasis mirrors a similar trend at corporate headquarters. "In the last two or three years, the bloom has come off the highflying marketing guy or financial type," says David Smith, managing director of



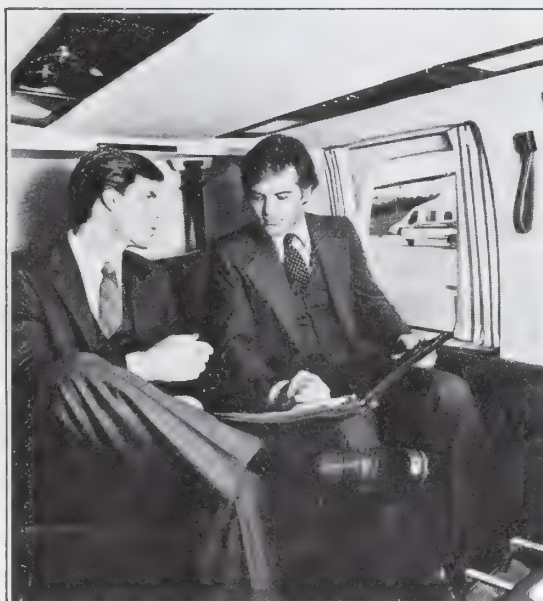
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International, an executive recruiting firm. "Companies had to cut costs and focus on what they make their products. Operations people control that process, so they seem to be in greater demand today."

An informal survey illustrates the trend dramatically. Officials at Chicago-based Heidrick & Struggles, another executive recruiter, kept a record of high-level promotions at major corporations during the first six months of last year. Of 74 individuals promoted to top positions, 60 came up through operations, vs. 11 in finance, 2 in sales and marketing, and 1 in law.

"We were shocked," says William Bowen, chief executive of Heidrick & Struggles. "We expected that the traditional routes to the top, like finance and marketing, would still domi-

nate." In comparison, a similar study by H&S three years ago found that nearly 28% of the executives who made it to the top rose through sales and marketing. Manufacturing and operations men were second at 27%, while 23% had financial backgrounds and 8% were lawyers. "The fast track often fits the squeaky-wheel analogy," says Harvard professor Robert Hayes. "The squeaky wheel today is the operations function."

Three years have passed since Hayes and his colleague William Abernathy published a now-famous study attacking management for a decline in U.S. industrial competitiveness. Part of their criticism rested on the observation that since the mid-Fifties the percentage of top management positions filled by executives with financial and legal backgrounds

had risen steadily. It was unfortunate, they claimed, that few chief executives had hands-on experience with their company's technologies, customers and suppliers.

More recently, management consultants Thomas Peters and Robert Waterman reached similar conclusions when they tried to find out what makes some U.S. corporations perform better than others. The top performers in their study were led by managers who grew up with the core of the business. At successful firms like Hewlett-Packard and Maytag, for example, the emphasis was on electrical engineering. At Bechtel and Fluor, mechanical engineering. Outstanding companies, Peters and Waterman concluded, are seldom led by accountants or lawyers.

No wonder, then, that more of today's eager-to-succeed business school graduates want line jobs than used to. FMC Corp. in Chicago, for instance, used to place as many as 90% of its M.B.A. recruits from top schools in staff positions. Now 40% of their M.B.A.s go directly into line positions, some as mundane as assistant to a plant manager. "More M.B.A.s want 'real' jobs today," says Jim Andrews, head of management resource planning for FMC. "They generally have anywhere from one to five years experience, so they're ready for a job in operations."

In the past, of course, ambitious new hires were more interested in the visibility and glamour of staff work at corporate headquarters. Now they seem more realistic. "The new interest is driven by students' appreciation of the fact that many businesses have to become low-cost producers to survive," says Harvard's Llewellyn. "If you are in a job where you can help do that, you increase your corporate leverage." Translation: Save the company's money and you're likely to get promoted.

All of this is a healthy, normal part of the free enterprise process. At the close of World War II, the U.S. was acknowledged to be a premier industrial producer. In the Fifties, with the economy growing and new customers to sell to, marketing skills were at a premium. Then, what with the Sixties stock market boom and the rise of conglomerates, financial wizardry predominated. In the Seventies, managers spent their time fighting the government.

It's been 30 years, then, since manufacturing was in the limelight. With a little luck, the rewards of the current shift in corporate attention won't be long in coming. ■



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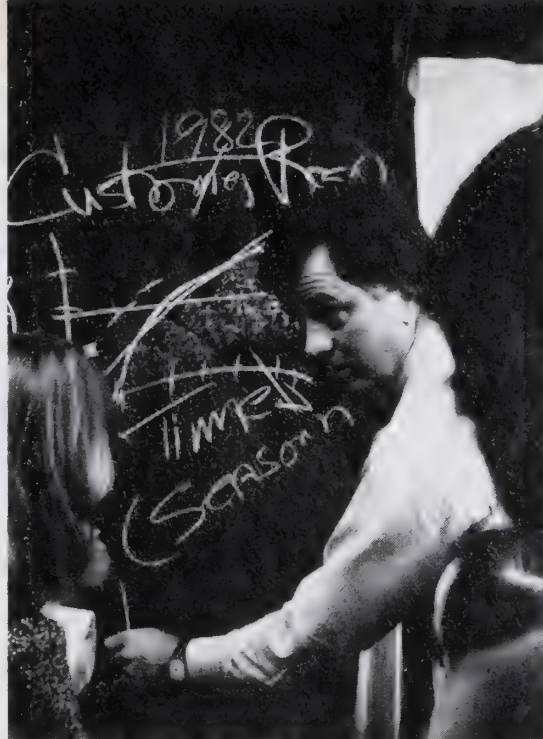
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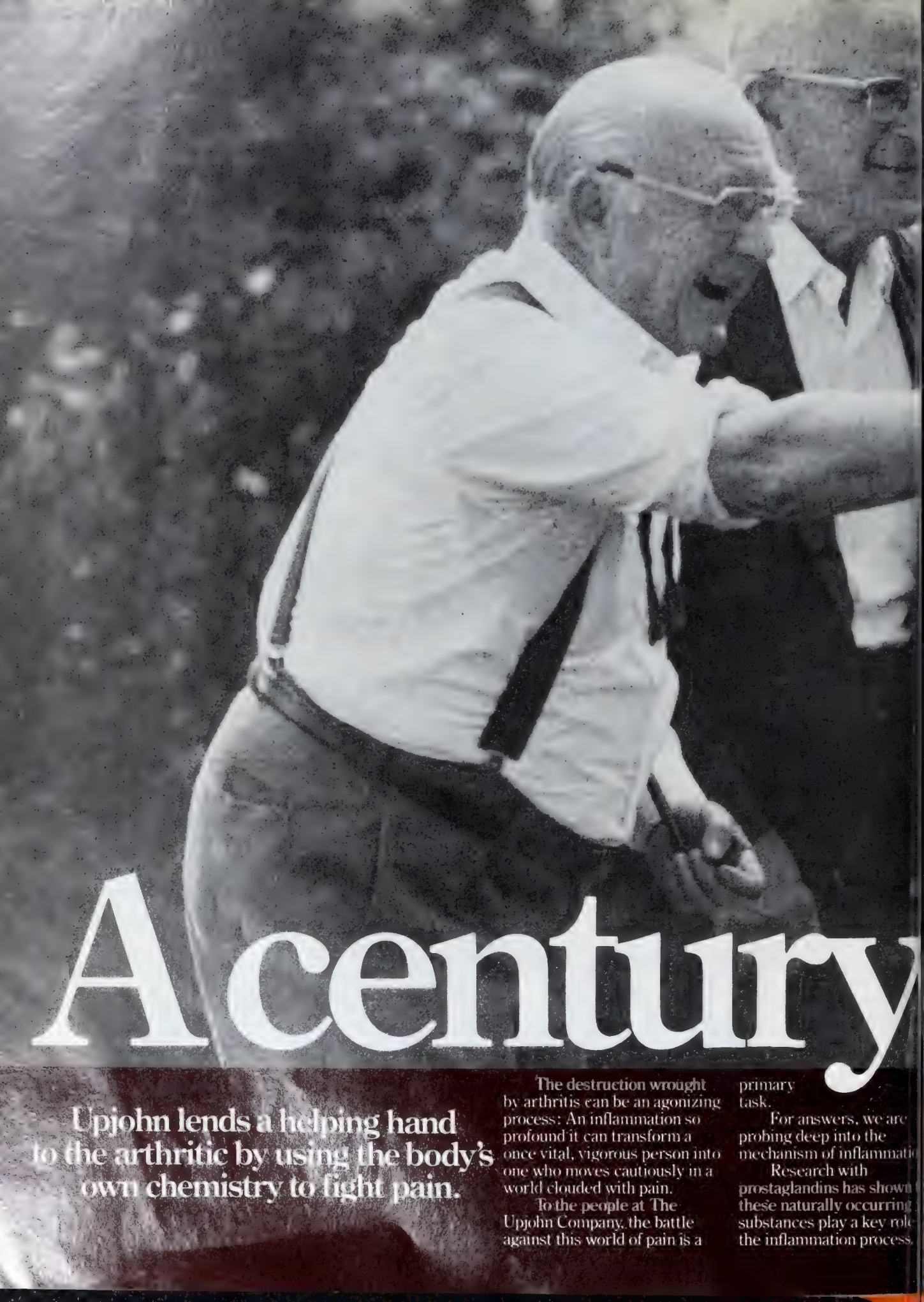
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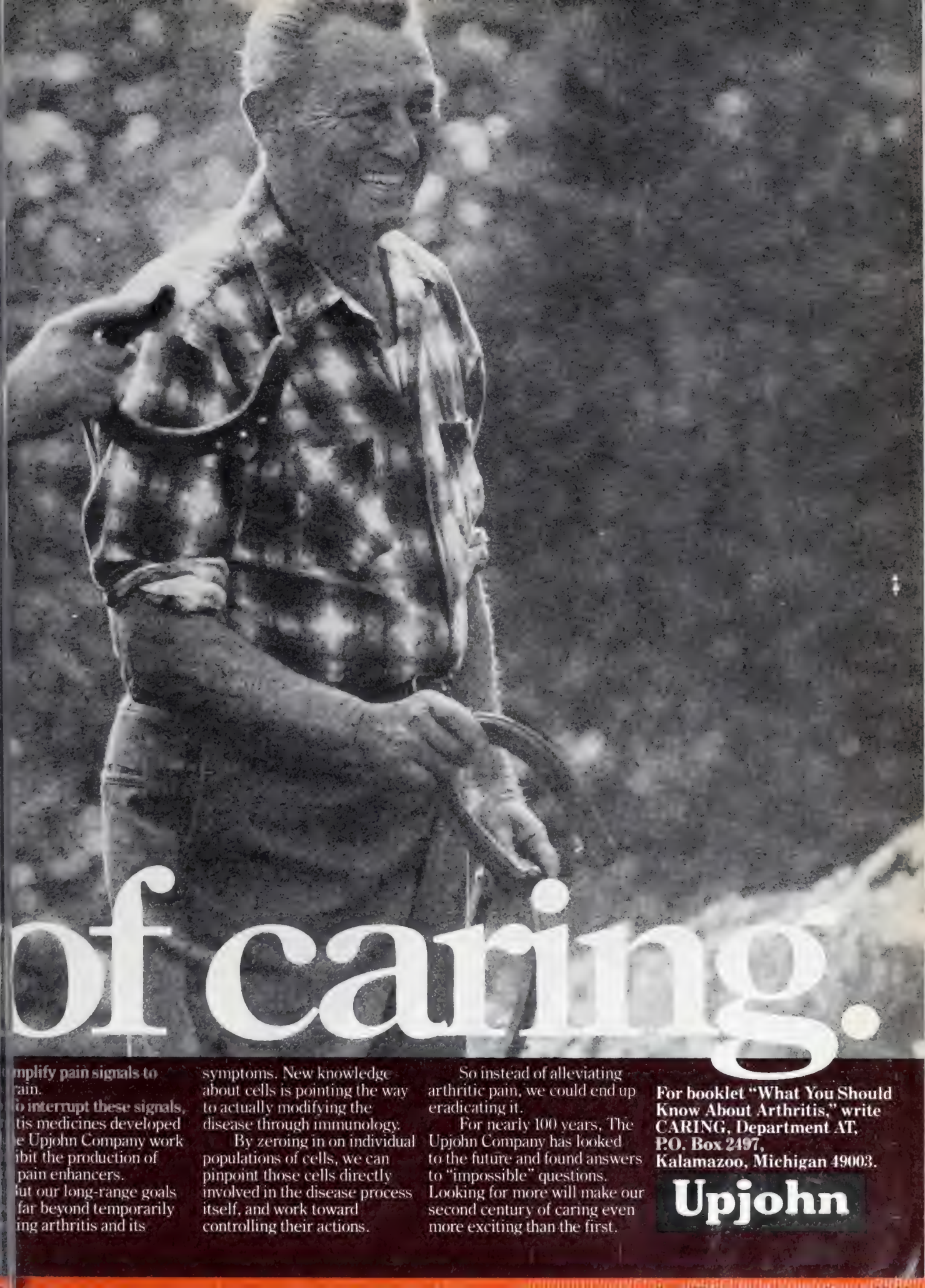
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Health Sciences Trust raised lots of money, but performance hasn't matched that marketing success. Is now the time to buy?

Rx for tired blood

By Barbara Rudolph

MUTUAL FUND MANAGERS create new products not because of new research ideas or sophisticated market strategies. They gear up to sell what they think the public wants to buy.

Putnam Management Co. caught the market perfectly in March of last year. Its Health Sciences Trust fund pulled in a thumping \$245 million in deposits and around \$20 million in load charges, one of the industry's most successful new offerings ever. Investors were captivated by the idea of "sector" or "category" funds, and the new Putnam product was one of the first of the current crop to hit the market.

The Health Sciences Trust's performance, however, hardly matches its salesmanship. In terms of total return, HST is up 40% for the year ended Aug. 4. Even though that gain is well below the overall market rise during the same period, the improvement is probably enough to keep most shareholders happy.

But not for those investors who closely track the competition. HST ranks in the 31st percentile of the 537 funds monitored by Lipper Analytical Services, Inc. Even more embarrassing to Putnam is the fact that two small funds specializing in similar areas performed roughly twice as well. Medical Technology Fund, a four-year-old no-load based in

Flourtown, Penna., was up 78% for the same period, and Fidelity's two-year-old low-load Select Health Portfolio was up 84%.

Where did HST go wrong? The size of the fund may be part of the problem. HST attracted "more money than we expected or even desired,"

however, they were overly conservative. HST bet on the large pharmaceutical and hospital supply companies like SmithKline Beckman Corp. and Pfizer Inc., which have underperformed the market for most of the past year. By contrast, it ignored some of the tiny medical technology and health supply companies like Genentech, Inc. and Matrix Corp., whose stocks until recently had been star performers.

Each of HST's two smaller competitors, moreover, chose a very different strategy to beat Putnam out. Fidelity's Bill Hayes has a \$113 million portfolio jammed with 117 stocks, which he is turning over at a rate of 100% a year. Med Tech's Chairman George Stasen, on the other hand, posts a minimal 8% turnover. He manages to pull that off even as he holds 67 stocks in his \$70 million portfolio. Each manager, though, has purchased a number of small, high-risk companies.

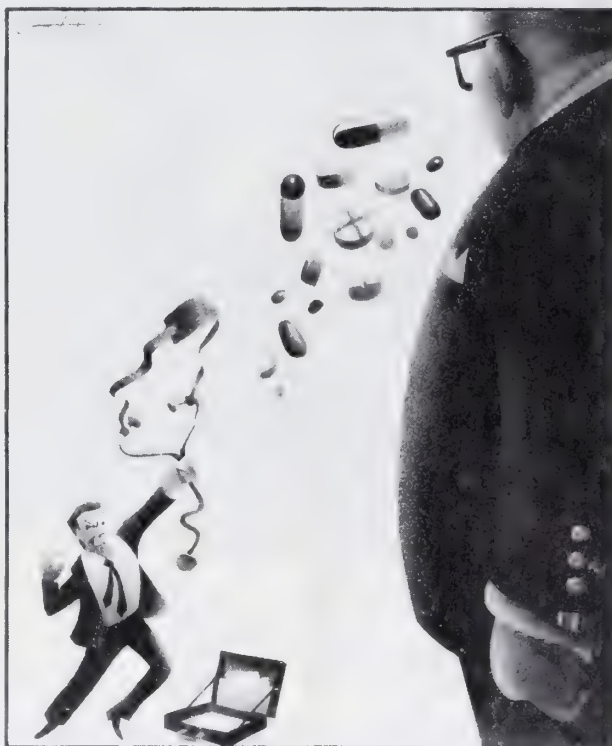
Despite HST's wobbly start, the fund isn't standing still. There has been a changing of the guard of portfolio managers. In January Alan Carr came on board from First National Bank of Boston. He racked up a respectable record between 1968 and 1975 running the aggressive Eaton & Howard Growth Fund. Putnam shareholders take note.

You can look, but you can't invest

Showing up on the annual FORBES honor roll can work wonders for a mutual fund's sales. Last year, for example, Denver-based Janus Fund had assets of just \$45 million before it made the 1982 list. In the six weeks that followed, \$16 million flowed in. Honorees have reported similar response this year, though it is too soon to get a firm handle on the list's overall effect.

So why is Mark Harriman frowning? He manages Naess & Thomas Special, a no-load fund that made the honor roll for the first time in August. Harriman reports that he has been getting hundreds of inquiries from prospective shareholders, but—frown—he can't accept one penny in new deposits.

Why not? Back in 1969 Schroders



Chairman George Putnam told FORBES last year. And that apparently intimidated the fund's portfolio managers. At the end of August, for example, HST was only 55% invested in equities. Its cash position was a sizable 23% as late as October.

When the investments did come,

Inc., the New York affiliate of a prominent British merchant bank, acquired Naess & Thomas. That makes the fund subject to the provisions of the Glass-Steagall Act, which bars commercial banks from selling mutual funds within the U.S. As a result, Harriman can take money only from overseas, except for a one-day grace period when Federal Reserve regulators lift the ban.

That has happened only once in the past 14 years. In a special domestic offering earlier this year, Naess & Thomas raised a quick \$8 million. "Until Glass-Steagall is abolished, all we can do is hope that the Fed will give us another day sometime," says Harriman, who has helped run the fund since its creation in 1960.

With total assets of \$41 million, Naess & Thomas is hardly an industry giant. In fact, until the recent offering, most of the fund's 600-odd shareholders had been investors since before the acquisition. That's because Harriman's lineage is impressive: Along with T. Rowe Price, Naess & Thomas founder Ragnar Naess was an early proponent of buying growth stocks. His fund and Price's New Horizons Fund were launched within four months of each other.

Both funds performed admirably in their early years, but Naess & Thomas was soon dwarfed in size by New Horizons, which now has assets of \$1.4 billion. The reason for the gap, says Harriman, is that Naess & Thomas managers failed to see the potential of a mass market. In its early years Naess & Thomas required shareholders to keep at least \$500,000 under management with the firm. "By the time we realized the possibilities, it was too late," he explains, pointing out that Schrodgers bought Naess & Thomas during a late-Sixties wave of mutual fund acquisitions.

Investors who hung on, however, have done very well indeed. Average annual total return since January 1973 is 16%. Harriman's strategy is to buy lots of small companies, which he thinks have the potential for high growth. The average market capitalization of Naess & Thomas companies is \$25 million, and the portfolio is highly volatile. But, on balance, Harriman seems to pick winners more than losers.

Consider a recent acquisition, Dento-Med, which trades over-the-counter. "No sales, no earnings, but two possible breakthroughs in denture technology," says Harriman. "Either it will be nothing or a great buy. There's no in-between."

So it seems. Naess & Thomas' net

asset value is down 12% since June, chiefly because it is loaded with technology stocks that were clobbered in the summer market retreat. But Harriman claims not to worry—it's merely an "intermediate correction."

Harriman also doesn't try to catch small market swings. So he plans to stay close to fully invested. His objective is to sense major trends, and, like any good money manager, he is not afraid to sit on cash. Naess & Thomas did that with some 90% of its assets in 1973 and 1974—one of the reasons the fund earns a commendable FORBES "B" rating in down markets.

A new teacher's pet?

The category craze is today's hot ticket in the mutual fund business. You know, portfolios that emphasize one industry group like health care or computers. But the industry's eager marketers are always on the prowl for yet another product to sell, and some outside experts think the next sexy sector might be education.

Why? Well, it isn't necessarily because there are lots of good stocks around to buy. The timing has more to do with public concerns. There is considerable grumbling these days about the failure of public schools; education is already an election issue. Politicians all say we ought to be able to do better, and the prospect for getting more money is better than it has been in years. Never mind the details—it's a good story.

Money managers with the right mandate could develop a nice portfolio of "education-related" issues, some media companies, a few computer software outfits and, of course, the basic textbook publishing giants like John Wiley & Sons, McGraw-Hill and SFN Cos.

Newton Growth Fund, a \$35 million no-load, has been buying along these lines. "Education is a political football and it also serves a need," says portfolio manager James Byrd. His holdings include National Education Corp., which operates vocational centers, Advanced Systems which provides industrial training for data processing centers, and Macmillan.

Is there method to this madness? Like other presently popular fund categories, these ideas have been around before. "People used the education story to sell computer stocks in the late 1960s and early 1970s," recalls one money manager. "They were supposed to be the great new teaching tool, but a lot of investors got burned." That should make them twice as cautious today. ■



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The First National Bank, opened in 1877, with the 1983 First City Centre building in downtown Austin
"You can shape change, but you can't stop it."

The 21st century is intruding upon the green hills of Austin, Tex., but one person's economic development is another's urban blight.

Trading off

By Toni Mack

BERT CROMACK, 44, a geophysicist in Austin, Tex., is president of the Save Barton Creek Association. Barton is one of several creeks that feed into an aquifer which in turn feeds Barton Springs. It's a lovely spot, in Zilker Park just southwest of Austin's downtown, where the spring water wells up into a city-dug pool. Some women take the sun topless on the banks. Cromack fears that development atop the aquifer will pollute Barton Springs, closing them or making water treatment necessary.

"It's emotional to me. I have many fond memories of my family at the poolside. I'd like other families to be able to go there," he says. Cromack fought unsuccessfully to keep Motorola from building on the aquifer.

"They come here, and then they destroy what they came here for. They like my neighborhood because it's nice and soft, lots of trees. Then they take away most of the trees and put up a big, hard condo."

In Texas, no-holds-barred development has produced cities with the grace of a highway shopping strip, but Austin is the exception. Set among the rolling hills of central Texas, Austin is split by a river, the Colorado, that broadens into lakes at two points in town. Environmentalists fret that growth will do away with the green woods, sparkling waterways and slow-paced charm, and, indeed, the roads are more crowded now and the lakes a bit more littered. Austin has 380,000 people, about 90,000 more than a decade ago, with almost as many again projected to come in the next seven years. Though the University of Texas and government—Austin is the state capital—remain the biggest employers, much of the growth comes from such companies as IBM, Motorola, Texas Instruments and Advanced Micro Devices.

The bankers and developers are euphoric over the 21st century electronics industry lured to Austin, especially the new research consortium, Microelectronics & Computer Technology Corp., headed by Bobby Ray Inman,



(Left to right) Pike Powers, assistant to Texas' governor; Eleuterio Loredo, who owns a construction materials company; John Watson, developer; and Ben Head, of Republic Bank. **Powers, Watson and Head led the forces that helped lure Bobby Ray Inman's Microelectronics & Computer Technology research consortium to Austin. "I don't know where we'd be if we didn't have the growth," says Loredo, who built his business from scratch.**



(Left to right) Bert Cromack, president of the Save Barton Creek Association; Max Nofziger, who was swamped in an antigrowth campaign for mayor, and Shudde Fath, SBCA treasurer, at Barton Creek.

"They come here, and then they destroy what they came here for. They like my neighborhood because it's nice and soft, lots of trees. Then they take away most of the trees and put up a big, hard condo," says Cromack.

former admiral and former deputy director of the CIA.

But it's not only bankers and nature lovers that are involved in the debate. Austin is 17% Mexican-American and 11% black, with the annual minority household income about \$16,000, less than two-thirds of the \$26,000 whites earn. The impression is that Austin's industry tends to hire skilled labor from the pool of midwestern immigrants and unskilled labor from rural Texas high schools rather than the local Mexican-Americans and blacks. "We feel we've been totally left out of the growth," says Paul Hernandez, who heads the East Austin Chicano Economic Development Corp. "We see all these jobs coming in. We just can't grasp them. We're not trained."

But if development isn't an instant cure for every problem, a good part of the minority community realizes there won't be progress without it. The construction trades are heavy with Mexican-Americans and blacks. "These are always the first ones out of a job. These people who don't want anything else built, do they realize it means a lot of people out of work?" asks City Councilman John Treviño Jr., who picked cotton, shined shoes and sold newspapers on his way up. He adds: "You have to understand, this is relatively new thinking for many of us."

Eleuterio Loredo, known as Sonny, is more proof of the progress that industrial development may bring. He grew up a half block from John Treviño in the poor Chicano neighborhood east of Austin's downtown. He began as a day laborer, sometimes working 16 hours a day for a local contractor, and worked his way up to supervisor at his boss' prefabricated building components plant. In eight and a half years he saved \$8,000 and quit to form his own prefab components company, Loredo Truss Inc. Last year he had sales of about \$2.3 million and predicts \$4 million this year. "We've got more work than we can handle right now. We're turning away orders. I don't know where we'd be if we didn't have the growth," says Loredo.

Austin doesn't have all the time in the world to sort out this controversy. The competition for technology-based industry is fierce, from Silicon Mountain and Silicon Desert and Silicon Plantation (as the high-tech centers in Colorado, New Mexico and North Carolina are sometimes called), to the job-hungry states of the industrial Midwest. But Austin does look good to refugees from the costs and pressures of California's Silicon Valley.

Explains Larry Jenkins, manager of Lockheed's Austin operations: "We had been doing well in Sunnyvale [Calif.] and wanted to expand, but we sort of ran out of room. They wanted to put limitations on the buildings, they wanted us to build parking for all the employees, put in lights and

NOT ALL CORPORATE TAKEOVERS ARE THE RESULT OF WINNING A PROXY FIGHT.



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...have been forcing an uphill battle." In Lockheed was welcome, the University of Texas provide consultants and employees and Lockheed and only \$8,000 an acre for its 700 acres southeast of town. In Santa Clara, Calif. some land went for \$640,000 an acre, he recalls.

Craig Moore, 24, now a programmer for Lockheed in Austin, is another California refugee. "My first day there, someone stole the battery and radio out of my car. Here I live in a nice, quiet neighborhood. It's a family place." He will soon move into the three-bedroom house he has bought for \$75,000. "An equivalent home in Sunnyvale would have cost \$100,000 to \$115,000. I couldn't have afforded it," he says. And Texas has no state income tax. "It meant an 8% raise just to come here."

Development has its price. The city used to provide water and sewer extensions to residential lots for a nominal charge. Now the "tap fee" is \$2,000 and up. Profits from the electric utility, owned by the city, provide 7% of Austin's budget. More city services mean higher electric rates. Even some parking spots in Zilker Park now cost money. "Our outstanding debt is now close to \$1 billion," says City Manager Nicholas Meiszer. "We could easily double that in the space of a year or two." It could get higher if Austin relocates its neighborhood-bound airport, a project Meiszer says would cost hundreds of millions of dollars.

But Austin seems to be destined to become a major center of the new industry, not replacing northern California's Silicon Valley, but muscling into the first tier of such centers in the next few decades. It's not only that the developers and the bankers are so powerful, but that working men and women are learning the importance of growth.

"The economy needs these computers. Oil goes up and down, but the microchip is here to stay." That's not the Chamber of Commerce president speaking. It's Dan Justinger, a ruddy, blond TV-cable installer sipping a Coke at Hawkeye's on 6th Street. He says that he once called himself St. James, hewed to the line of Timothy Leary and Abbie Hoffman and has fond memories of breaking into Rice University offices in his youth. Now 30, he

may worry Austin could lose some of its specialness, but he knows electronics is the future. "These kids—18, 19, 20 years old—they need it," he says.

That type of thinking had businessmen, politicians and academics from all over Texas wooing MCC, the Microelectronics & Computer Technology Corp., last spring. The recession and softer oil prices brought home the message that even Texas is vulnerable. Unemployment in oiltown Houston is at 10% and is as high as 26% in border towns hit by peso devaluations.

MC C itself, a research consortium funded by Control Data, Honeywell, Motorola and ten other electronics companies, will bring only 400 to 600 jobs but could draw other manufacturers and entrepreneurs to the state. "Wherever the brainpower is, that's where the money's going to go," says Ben Head, chairman of a local bank and the Chamber of Commerce.

So Head worked not only with Austin folks but also with the mayor of San Antonio, officials from Texas A&M 100 miles down the road in College Station and businessmen like banker Ben Love of Houston and electronics executive Ross Perot of Dallas. Together they gathered "the Texas incentive" almost wholly from private sources: pledges of \$20 million for a building at the University of Texas' research park; \$15 million to beef up UT's computer science and electrical engineering departments; \$23 million in low-cost loans for MCC employees; and other support, even down to part-time use of a Lear jet to ferry MCC executives and recruits. San Diego, Atlanta and North Carolina's Research Triangle lost the competition for MCC.

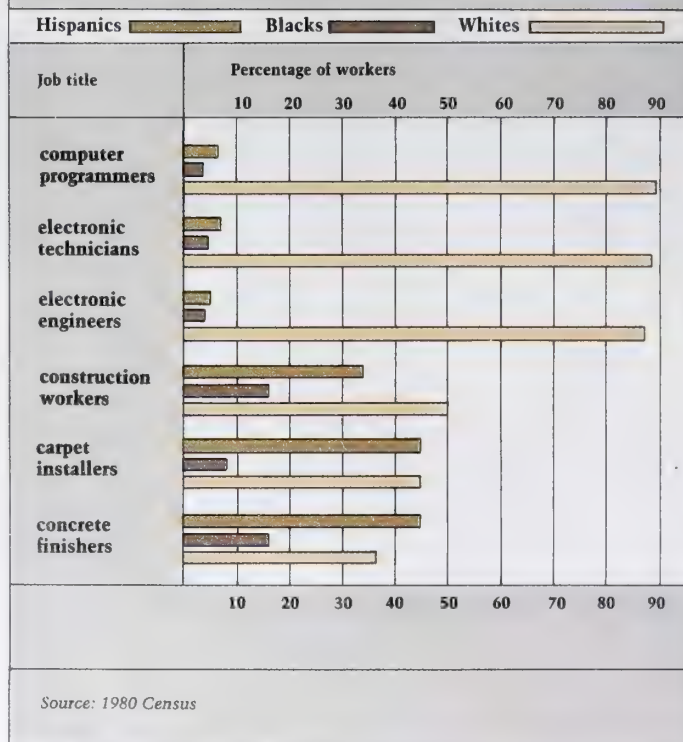
Bobby Ray Inman, a native Texan and retired admiral who heads MCC, says: "Cotton and cattle ruled the Texas economy for the first 100 years, oil and gas for the last 50. But these people saw that was finite and ending and now was the time to invest in the future. So they broke out their checkbooks."

Perhaps the no-growth voices, now less strident than five years ago, will learn to make hard choices. As University of Texas President Peter Flawn, who has lived in Austin since 1949, says, "One thing's true: You can shape change, but you can't stop it." ■



No instant cure

Today, technology jobs are held by whites, while Mexican-Americans and blacks dominate the unskilled work. But overall unemployment in Austin is only 4.3%.





Today, John Manor
spends more time
coaching and less
time worrying about
hospital costs.

In 1980, HCA assumed the management of county-owned Jackson Hospital in Marianna, Florida.

"Our county built a new facility with a \$5 million bond issue in 1978 and quickly discovered that running a hospital today is so complex and fast-changing that we needed experts. HCA and its affiliates are successfully running over 360 hospitals. We wanted that experience on our team."

In 1981, the hospital reduced its request for county funding for the first time in history.

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"But what really surprised us was when the hospital recently *reimbursed* the county \$50,000, which resulted in a county-wide tax reduction. These savings were clearly the result of efficient management not rate increases. Our semi-private room rate is still one of the lowest in the Southeast.

"Yet while reducing costs, HCA added services we badly needed, like the only 24-hour physician-staffed emergency room for 40 miles. HCA is certainly giving us a better-run hospital with better services, but we expected that. What I didn't expect is that they could do so much—and lower taxes too. Now all I have to worry about is my pitching."

John Manor is chairman of Citizens State Bank in Marianna, Florida, and vice chairman of the board of the Jackson Hospital.

HCA Hospital Corporation
of America

One Park Plaza, Nashville, TN 37203

Maule isn't a threat to Beech or Cessna, but he builds a line of small airplanes just the way he wants to.

Fly me, I'm different

By Martin Love

WHEN HE WAS 10 years old Belford (B.D.) Maule jumped out of the barn at his parents' farm in Ohio, figuring an umbrella might break his fall. It didn't. At 21 he mounted a motorcycle engine on a homemade plane he called the M-1. In his 30s Maule designed and flew the world's first successful ornithopter, an aircraft with flapping wings.

Maule is 71 now, has his own company and is still building airplanes with as much enthusiasm as ever. For two decades, bush pilots, ranchers, adventurers and missionaries have been flying Maule Aircraft Corp.'s sturdy, practical little machines from Amazonia to the Arctic. About 1,200 Maules have been built since 1962, first in Michigan, then in a Moultrie, Ga. manufacturing complex on an abandoned Air Force base next to Maule's home.

Maule got his start as a manufacturer in 1940, when he developed a self-starter for aircraft motors. He was working for Lycoming at the time, but quit to market his invention. During WWII he invented a tailwheel for small aircraft that was used on Piper Cubs. After the war he eventually worked his way up to entire planes, and in the early 1960s began to sell the M-4.

How does a mom-and-pop company with some 70 employees turn out a full line of single-engine aircraft?

Maule has a lot of energy, and a few secrets up his sleeve.

To begin with, he isn't big on overhead. Maule bought the land his plant sits on for \$1 from the government, and the top executives are in the family. B.D.'s wife, June, is vice president and treasurer. Son Ray is the informal marketing director. Son Gary runs the parts department, and son David



Belford D. Maule and the M-7

And his lab is any one of some 50 rocking chairs.

works in the machine shop. David's wife, Barbara, is sales secretary, while daughter Shirley does drafting and engineering. Daughter-in-law Janet keeps the books.

Instead of hiring lots of high-priced engineers, Maule does all of the firm's design work himself. His "lab" is any one of more than 50 rocking chairs he scatters about the plant and on the deck of his nearby house. Maule's latest innovation is a model called the M-7, whose cargo version he dubs the

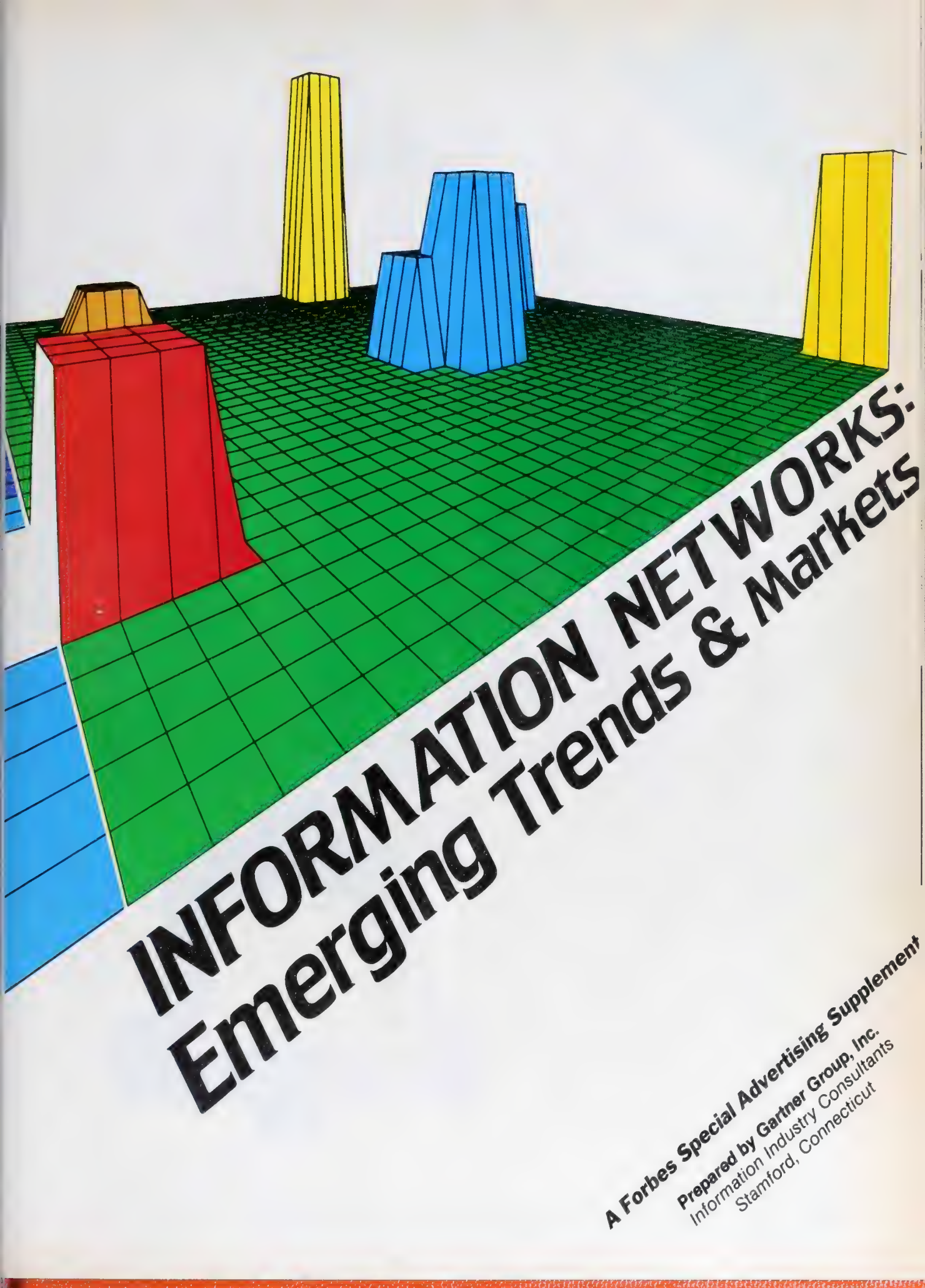
flying station wagon. It is a slightly wider variation of his bread-and-butter M-6 and can carry five people at speeds of up to 170mph for a mere \$60,000.

Prices like that, of course, make Maule competitive with general aviation giants such as Cessna and Raytheon's Beech. But with revenues of only \$1.9 million last year and production that peaked at a mere 105 planes in 1977, Maule is hardly a threat. Sure, there are stories about the Saudi Arabian air force colonel who thinks Maules would be "perfect trainers in the desert" and the Oregon middleman who may sell 200 Maules to the Pakistanis.

Belford Maule, however, gives the distinct impression that he would as soon build and design airplanes as sell them. Not that Maule would refuse business, but the company doesn't advertise and tacks on a four-to-six-week delivery time. "With more orders, I'd have to hire more people to build more planes," he explains. "That would just complicate things." Adds test pilot Dan Spader: "There's all the potential in the world here to do high volume, but we don't chase sales. Things are pretty laid back here."

That, of course, is the way Maule likes it. He has plenty of time to tinker, to ride one of his several bicycles around the plant, or to dodge pines out in the woods on his motorbike. Even when Maule takes a break in one of his ubiquitous rockers, he still spouts ideas. Talk to him, for example, about crime in the cities and he allows as how he ought to design and patent a repellent device like Mace that would not only incapacitate a mugger temporarily but also mark the culprit's skin or clothes with some sort of indelible paint that could easily be spotted by police.

Despite his unusual approach to business, Maule's aircraft factory is profitable. He lost money once—in 1980. Net profit last year, a difficult one for the general aviation market, was \$100,000. Belford Maule certainly isn't making millions. But he turns out a product he is proud of and lives just the way he wants to. Not a bad way to fly. ■



INFORMATION NETWORKS: Emerging Trends & Markets

A Forbes Special Advertising Supplement
Prepared by Gartner Group, Inc.
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Stamford, Connecticut

INFORMATION NETWORKS: Emerging Trends & Markets

INFORMATION NETWORKS: EMERGING TRENDS AND MARKETS

The age of information networks is here. Consider the oilfield equipment manufacturer in Houston who picks up his phone, dials a number connecting him to a database in Palo Alto, and punches in a few key words on his portable terminal: "oil and gas drilling ...rig count estimate," etc. Almost instantaneously, the California-based computer seeks out the latest drilling activity data from its voluminous disk storage and, under the eyes of the Texas oilman, the terminal device proceeds to print out summaries that will help him in his planning.

Or consider the financial executive who, as he goes through a busy day, is able periodically to tap into Dow Jones stock quotations at the push of a few buttons. Or the housewife or home manager who shops and pays bills from home, taking advantage of a new videotex service.

Such examples of the happy marriage of telephone and computer technology are not uncommon—nor should they be especially surprising. Over the past decade, phenomenal advances have been made in computer and microwave technology, in microelectronics, and photonics; what could be more natural, in seeking to expand information into a national network, that this technology be wedded to telecommunications? After all, the telephone is already in place in the vast majority of American homes and businesses. In fact, the touch-tone phone, already more commonplace than its rotary-based predecessor, will serve as the basic information terminal for most of us during the dawn of the Information Age.

What is information networking anyway? Generally speaking, it means transferring information electronically and even integrating voice, data, and image transmission into an efficient stream of information. Networks can tie dissimilar intelligent devices, terminals, computers, and databases to one another through common communication

links within the office or home, locally, regionally, nationally, and throughout the world.

Today, local and long-haul transmission equipment includes state-of-the-art digital technologies that process bits of information, and combine and transmit them over vast distances by way of terrestrial or satellite communication links. Information networks are evolving from AT&T's public switched networks, i.e., the telephone system, as well as from "value-added" networks (VANS). The landmark restructuring of the Bell System has helped raise America's consciousness to the presence of information technology and its benefits.

These benefits are extensive. Networking brings new economical information services to users—electronic mail, high-speed digital services, teleconferencing, and videotex. It gives the knowledge worker in small as well as large organizations ready and affordable access to rapidly-expanding public databases. It also allows the power of larger computer resources and expensive communications facilities to be shared with smaller users on a cost-

effective basis. Network capabilities now within the user's reach include the efficient transmission of voice and data, effective mass mailings to customers and potential customers, professional editing services, and ready access to current market research and industry data.

The Restructuring of AT&T

On January 8, 1982, as almost everyone is now aware, the largest industrial corporation on earth, AT&T, surprised the world by announcing its planned dissolution into several parts, with full divestiture of the 22 Bell operating companies (BOCs). After more than 100 years, the national integrated telecommunications utility, with assets of \$165 billion, was to be split apart into local and intercity segments. A new AT&T, free to enter any market, including those previously denied it, would retain its manufacturing and research arms, Western Electric and Bell Labs.

What effect on the telecommunications network follows from divestiture? AT&T and the independent telephone



It may come as a surprise to many readers that the divested Bell Operating Companies will walk away with some 80% of the Bell assets, leaving a much leaner AT&T to take on the Information Industry. The "new" AT&T, though, will find its asset/revenue structure much more in line with those of its new competitors in the Information Industry.

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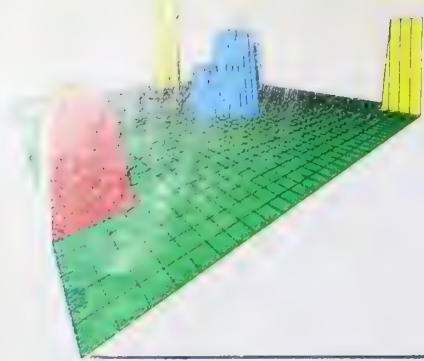
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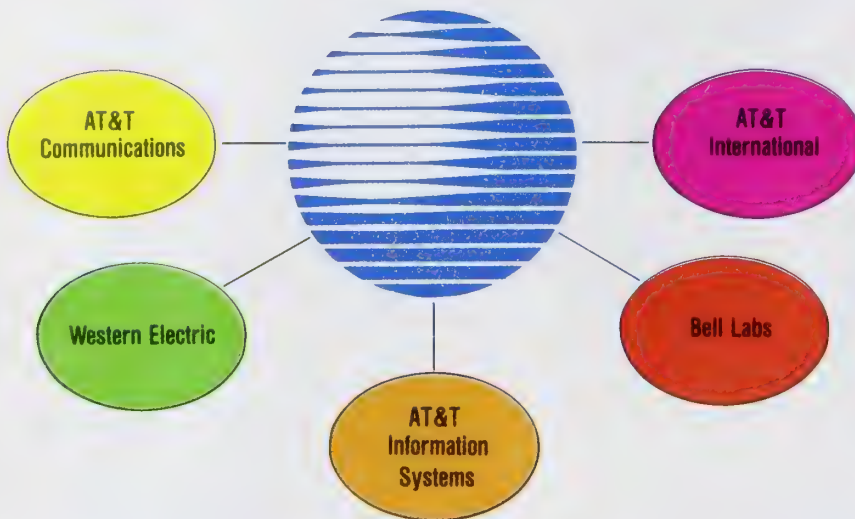
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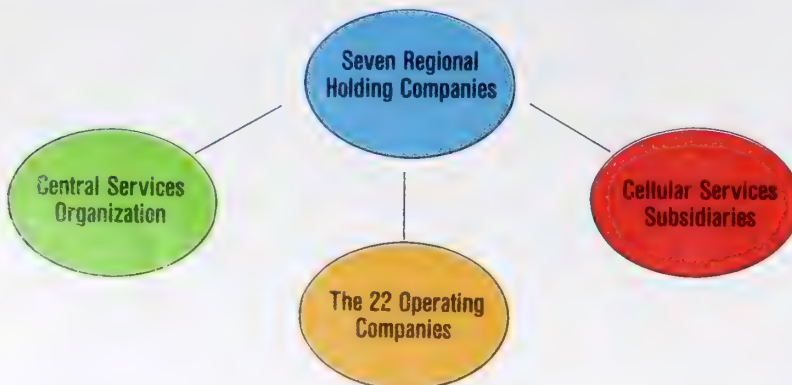
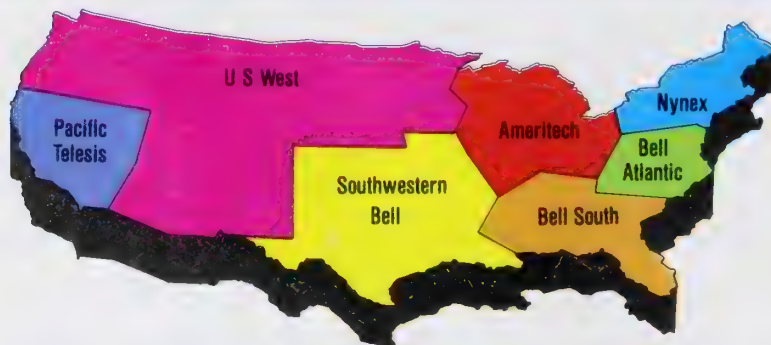
INFORMATION NETWORKS: Emerging Trends & Markets



The New AT&T



The new organization of AT&T is designed to facilitate entry into the worldwide Information Industry. Maintaining the historical functions of Bells Labs and Western Electric should help to make for a smooth transition.



The 22 Bell Operating Companies will be organized into seven new regional holding companies that will oversee the BOCs, provide technical and support services through Central Services Organizations, and pioneer cellular markets with the Cellular Services Subsidiaries.

companies that together maintained the national network shared revenues through contracts and settlements. With divestiture all contracts and settlements were nullified. As a result of its voluntary action, AT&T gained entry into competitive markets such as value-added information services.

New technologies, such as microwave and satellite transmission, have spawned new carriers in competition with AT&T; examples—MCI Communications, Southern Pacific Communications, Satellite Business Systems, and American Satellite. Users benefit from a wider choice of services, the potential to reduce costs and to enhance productivity.

The miracle of microelectronics which transformed the computer industry is now at work transforming telephony. Microcircuits have been implanted in switching facilities throughout the more sophisticated echelons of the telephone network and are even being designed to add function to the plain-old-telephone. Central offices of the BOCs have the benefit of digital electronic switching systems, including the 3B20D microprocessor designed by Bell Labs. Digital electronic switching systems have made optical fiber links practical. Digital techniques have combined computer power with advanced fiber optics technology to permit the transmission of far more information than standard wire or cable. The result: increased economies of scale and reduced message unit costs.

These and other technological advances in an intensely competitive environment are making possible ever-expanding information services. Before taking a look at a few of the more exciting services likely to flourish, we set the stage by examining two recent developments that have served to facilitate and accelerate the growth of new options in information networks: the rise of value-added networks; and the PBX explosion.

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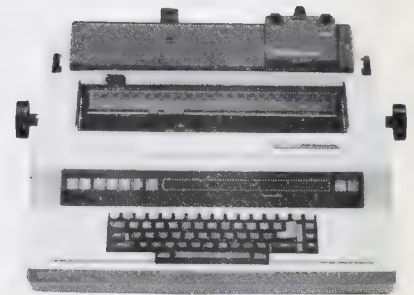
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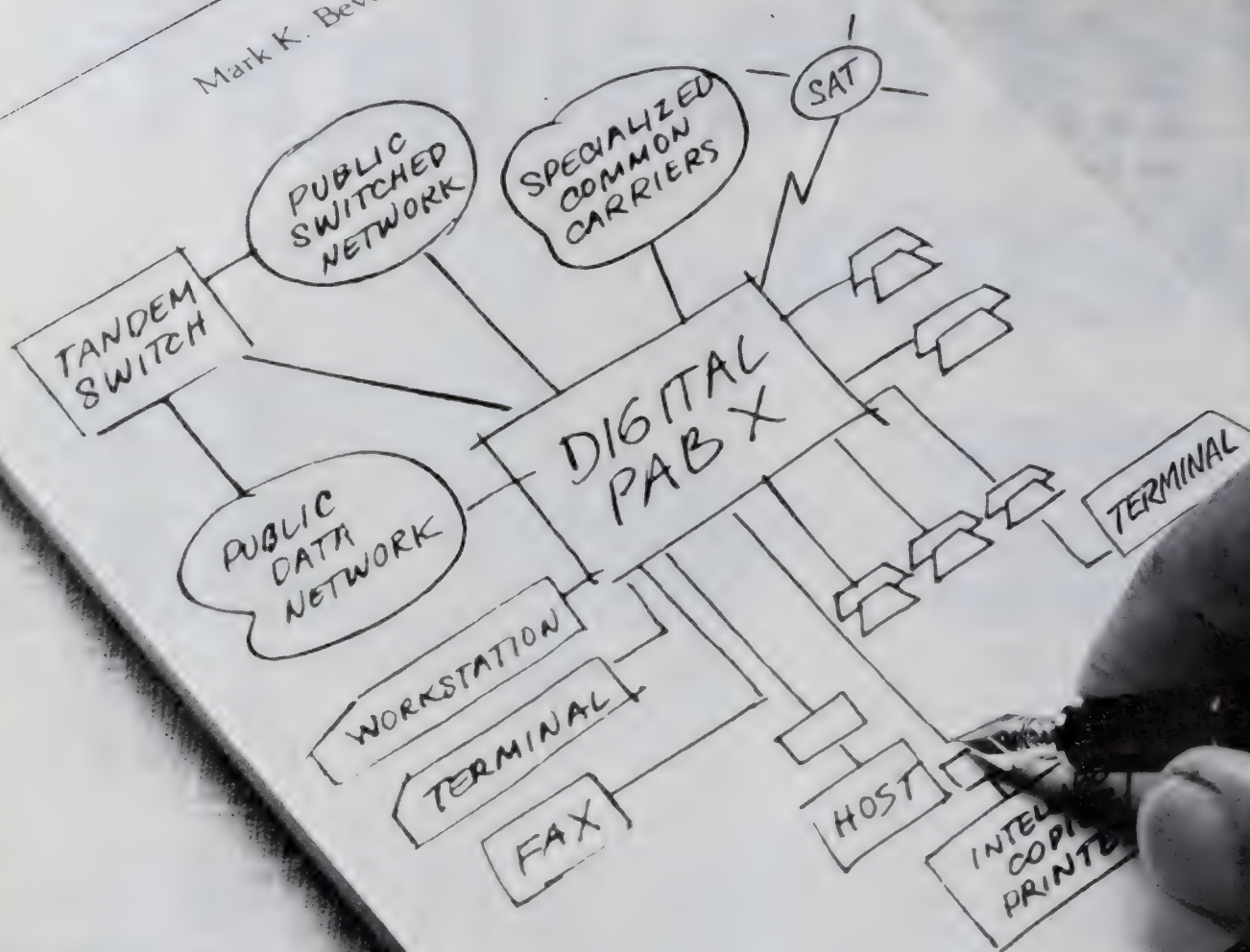
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INFORMATION NETWORKS: Emerging Trends & Markets

Value Added Networks

Telenet (GTE)	Tymnet (Tymshare)	Uninet (United Telecom)	Cylix (RCA)	AIS/Net 1000 (AT&T)	Information Network (IBM)
Network					
Data Only Terrestrial Packet Service	Data Only Terrestrial Packet Service	Data Only Terrestrial	Data Only Satellite/ Terrestrial	Data Only Terrestrial/ Satellite Packet Service	Data Only Terrestrial Satellite
Coverage					
• Local Access in 290 cities • Serves 50 countries	• Local Access in 400 cities • Serves 34 countries	• Local Access in 230 cities • Int'l Service via INCS	• Access in 400 cities currently • Intern future through RCA	• only 17 cities (in 1983)	• Available in 50 cities by year end 1984
Access					
• Public Dial • Private Dial • Dedicated point-point	• Public Dial • Private Dial • Dedicated point-point	• Public Dial • Private Dial • Dedicated point-point	• Dedicated multi-point or point-point	• Dial • Dedicated point-point	• Dial • Dedicated
Speed					
• Up to 1200bps for dial • Up to 9600bps for dedicated	• Up to 1200bps for dial • Up to 9600bps for dedicated	• Up to 1200 or 2400bps for dial • Up to 9600bps for dedicated	• 4800bps at terminal end • 9600bps at host end • 56,000bps terri-satellite	• Up to 9600bps for dedicated • Up to 4800bps for dial	• Up to 9600bps

Value-Added Networks

Value-added networks (VANS) are the structural foundation of information networks. Traditionally, value-added carriers such as Telenet lease underlying transmission facilities from AT&T and other common carriers. VANS generally bundle data in packets for efficient transmission. Packet switching allows many users to share the network facility and communications links and to do so economically. VANS "add value" to basic telephone services by offering speed, code, and protocol conversions that provide users with enhanced data communication services. For example, VANS permit otherwise incompatible terminals and computers to communicate with one another. They also ensure the integrity of data transmission by means of sophisticated error detection and correction techniques.

GTE's Telenet subsidiary evolved from an early network designed for the Department of Defense. Introduced in 1972, this network now serves an estimated 150,000 terminal users in 290 U.S. cities. Users of Telenet may access 1200 remote computer systems and

interconnect with information networks in 50 other countries.

Tymnet, sometimes referred to as Telenet's T-net twin, owes its origin to its parent Tymshare's computer services; Tymshare customers needed the cost-effective communications services that Tymnet was designed to provide. This year was one of major growth for Tymnet's network as it added 150 cities to its network now serving over 400 cities and 41 countries. The rest of the world is accessed through Telex circuits. Direct dial-up access is made with a local telephone call in domestic and international cities served.

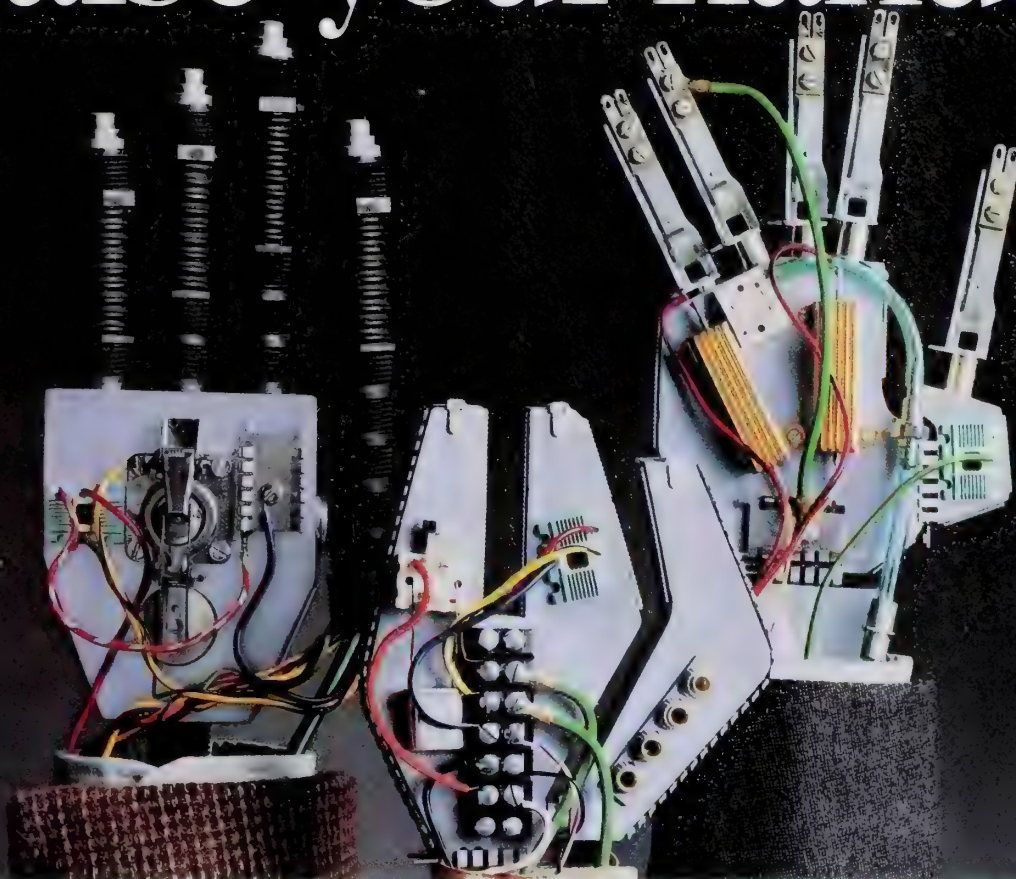
The T-net twins are clearly enjoying the fruits of their labors with an annualized growth rate of approximately 50%. Maintaining this impressive performance will mean continuing to enhance their networks with new services. For example, Telenet now has the capability to support switched communications among IBM 3270 computer terminals and most other computers that support the 3270 protocol. Thus, on demand, a 3270 user can access any computer application on any of several

host computer systems located anywhere, rather than a single application on a single host. Tymnet has added a new capability to support IBM 3270 applications in 30 cities by year end.

The ongoing personal computer revolution will be a very important growth factor for VAN carriers and they have been quick to respond with new services to maximize personal computers as a resource. Telenet will use a new communications protocol developed by Microcom, Inc. to support direct transmissions between personal computers and host computers or other systems. Tymnet has developed a new protocol, X-PC, to support a wide range of personal computers in addition to the IBM PC.

But Telenet and Tymnet are not alone. UNINET entered the VAN market in 1981 after thirteen years of serving its parent United Telecom as a nationwide private packet carrier. United, the nation's second largest independent telephone company, last year also acquired a controlling interest in ISA-COMM. This resale communications carrier offers integrated voice, data, and

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As a result, many executives are seeing control and efficiency slip away, replaced by mounting "PC Pandemonium."

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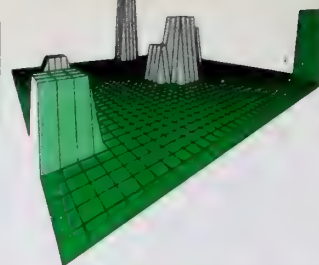
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INFORMATION NETWORKS: Emerging Trends & Markets

image services (such as teleconferencing) over Satellite Business Systems' satellite network. With its UNINET and ISACOMM networks, United is well positioned to offer the integrated services that will mark the Information Age. United's challenge is to integrate its Uninet value-added network with its satellite-based ISACOMM network. To get there, United is investing heavily to upgrade UNINET and expand the capabilities of its networks.

Cylix Communications is yet another value-added carrier offering satellite-based services. Before being acquired by RCA last year, Cylix had established a nationwide communications network, combining satellite links and terrestrial communications facilities for long-distance data transmission. The Cylix network service is a medium-to-high-speed satellite packet-switching network service that is optimal for transaction processing and offers business an economical alternative to private networks.

But as far along as these VAN carriers have come, they all must contend with the undisputed king of the hill, AT&T. On June 15, 1982, AT&T unveiled its first enhanced service: Advanced Information Systems (AIS)/Net 1000. Net 1000 permits business users to communicate with computer systems offered by different manufacturers. As such, it offers the promise of universal networking necessary for global information networks. Its proprietary "C" language software makes dissimilar equipment compatible by translating codes, converting protocols, and monitoring the speeds of different terminals and host computers. Customers access any one of 17 Net 1000 service points through their computer terminal to enter and store data to be transmitted over AT&T Communications' Bell Packet Switching Service (BPSS).

IBM, conceding nothing to its potent new competition, introduced a new computing network for remote interactive information processing, called simply the "Information Network." Based on IBM's Systems Network Architec-



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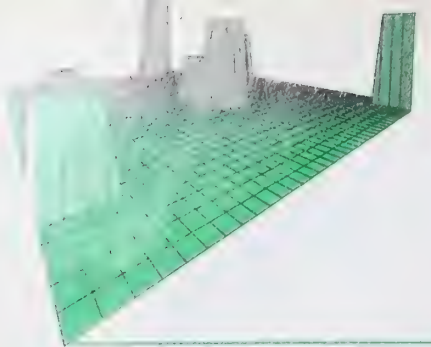
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INFORMATION NETWORKS: Emerging Trends & Markets



ture (SNA), IBM/IN allow users to perform their own tasks from terminals linked through the network to IBM's centralized computer complex in Tampa, Florida. IBM/IN already serves more than 200 customers in 13 cities and a total population of 2500 terminals. A recent agreement with GTE Telenet will extend it overseas.

Without question, IBM and AT&T are on a collision course; where the important battles will be fought and what will be won and lost is still open to speculation. For the time being, however, it is noteworthy that both AT&T and IBM rely on Telenet's value-added network facilities. Telenet offers IBM SNA users special interfaces that allow them to interconnect with GTE's transmission facilities. Also, interfaces or bridges are being built between local area networks and value-added networks. For example, Continental Telecom, a diversified telecommunications enterprise has developed a modular local area network, ConTelNet. Its ConTel Information Systems subsidiary has designed an X.25 interface to bridge ConTelNet and public data networks such as Telenet. NCR has developed a local area network, called "Decision Net," which links personal computers from several manufacturers into a communicating and resource-sharing network. Users can process, store, and access information where and when it is convenient to do so.

Many other companies are attempting to leverage their positions in related areas to share in the growing demand for information services. CompuServe now offers value-added services using the network it developed for remote computing. Automated Data Processing this year brought its private network public. And only last month, Computer Sciences entered the market with its international Infonet network. Companies not willing to offer their own public networks will build bridges to other networks. The result? Information tools, such as terminals, host computers and personal computers, will be linked to increasingly larger and more capable

information networks, giving users greater reach and their information tools

even greater power to enhance user productivity.

LOCAL AREA NETWORKS

The concept of a local area network (LAN) has received a great deal of attention in the past few years. LANS have been hailed as the solution to a rapidly escalating problem: how can proliferating personal computers and other intelligent devices be made to interact effectively with one another despite the fact that they often contain very different technical specifications? Users are discovering that though these devices are cost justifiable for their standalone capabilities, to get the most out of them requires they be able to communicate.

Conceptually, a LAN can be thought of as a high-speed data pipeline. Interaction among workstations, computers, and peripheral devices connected to the pipeline occurs at very high speeds. Signals are converted into a standard format (for translation purposes) with each device given its own address code to ensure that proper connections are made.

Despite their promise, however, the LAN market has been slow to develop. First of all, LAN implementation requires substantial research and planning for establishments able to benefit from them. And because devices suitable for LANs are widely dispersed across many departments, most user establishments have yet to even identify what they have in place, let alone tackle how to integrate them. Moreover, because no accepted industry standard now exists for transmission media (twisted pair, coaxial cable, and fiber optical cable) or for critical, high level software many users are wary of committing to products that might not stand the test of time.

Nevertheless, over 40 companies are providing LANs, including many independent vendors such as Ungermann-Bass, Corvus, 3Com, and Interlan. Most computer systems suppliers have developed their own LANs; for example, Datapoint has ARCnet, DEC has DECnet (as well as a joint stake in Ethernet along with Xerox and Intel), and virtually every microcomputer vendor from Altos to Zilog supports some form of local area networking. Even CompuCorp, whose roots are in word processing oriented hardware and software, has enjoyed surprising success by packaging its OmegaNet LAN with two or three workstations for small business units. PBX makers, led by the 1979 startup InteCom, have moved to integrate LAN functions into their products. Others active in this arena are two privately held companies, CXC and Ztel. CXC, whose "Rose" product is based on a totally distributed architecture (unlike PBXs from Northern Telecom and Rolm) is aiming to integrate Ethernet and IBM's LAN when it appears. Ztel, in which NCR and GE have substantial equity positions, is aiming its "Private Network Exchange" (PNX) at the same market as is CXC.

Although no currently available LAN can fulfill all possible applications, dominant LAN architectures for specific applications will begin to emerge in the next few years. As corporate planners begin to address local networking in earnest and improvements in hardware and especially software continue, LANs should begin to gain widespread acceptance towards the latter half of the decade.

—Bob Fleming

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The PBX—A Gateway To Information Networks

PBXs are compact electronic switchboards that can be programmed with software to provide advanced telephone functions, such as speed dialing, least-cost routing, and call forwarding. Newer generation PBXs combine both voice and data and serve as gateways to information networks. PBXs are also critically important because they permit a wide variety of otherwise incompatible computer, communications, and other intelligent devices to communicate effectively with each other.

AT&T's Dimension System 85 PBX includes features which make it a true information terminal. Voice and data may be transmitted at high speeds from office to office, coast to coast, and internationally. Compared with older designs, the System 85 is fast—as its code-name "Antelope" suggests. Digital communications protocols enable it to combine (or "multiplex") voice, data, and control information into a single high-speed information stream. System 85's high-speed switch design is based on computer technology: a 16-bit microprocessor with a 64K RAM memory that runs on a modified UNIX operating system.

Northern Telecom, one of the pioneers of digital PBX technology, is a vigorous competitor of AT&T. Northern's SL line of switching systems has been very successful. Its SL-100 PBX services up to 30,000 lines and will be Northern's main offering to the large line-size (greater than 5000 lines) PBX market. Northern introduced the first digital switch in the U.S. and is second only to Western Electric as a full-line telecommunications manufacturer, with 16 manufacturing plants, 11 R&D centers, and nationwide marketing, sales, and service centers.

California-based Rolm Corporation has also been a tough competitor since the introduction of its Computerized Branch Exchange (CBX) product line in 1975. The CBX is a fully digital computer-controlled telephone system designed for businesses. Rolm's strategy

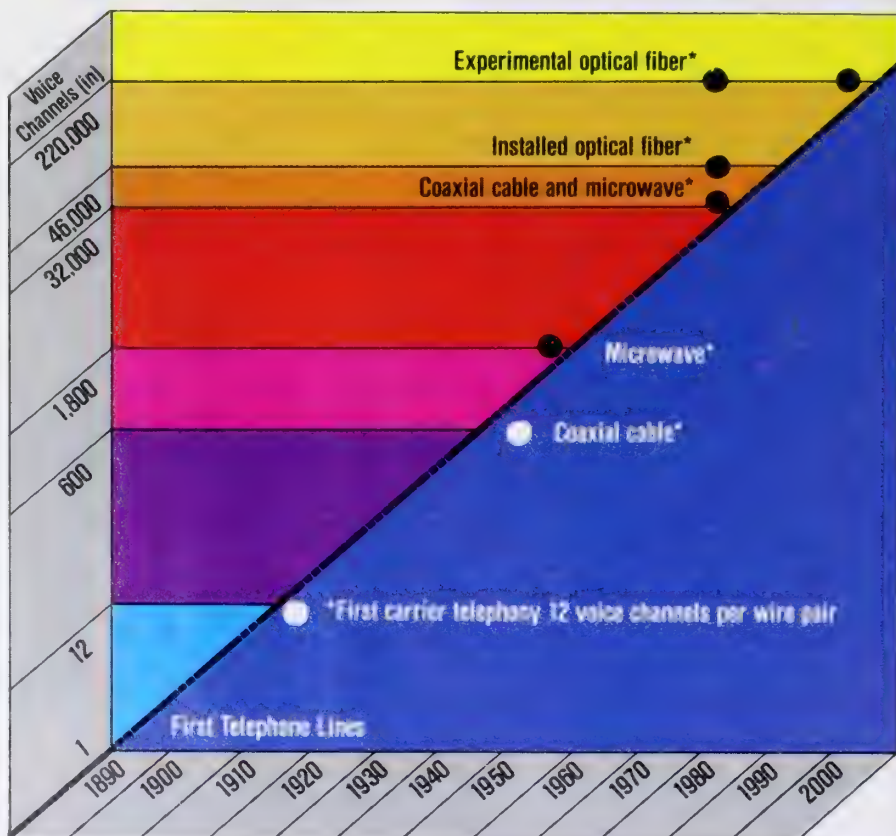
is to make its CBX systems the hub of office information flow, by integrating voice, data, and text with advanced data communications features. Software enhancements made this year allow numerous asynchronous data communications devices, including terminals, host computers, and personal computers, to be interconnected over data networks—a very significant step.

Rolm has already developed gateways to IBM environments. The new Rolm IBM gateway will allow most ASCII devices, personal computers, and communicating word processors to act like IBM 3270 computer terminals and thus be able to communicate with IBM host mainframe computers. Rolm also offers interfaces for interconnecting its CBXs with value-added, public data networks, e.g. Tymshare's Tymnet, GTE Telenet, and AT&T's AIS/Net 1000.

PBX manufacturers are exploring ways to profit from tie-ins with computer makers. Apparently, IBM was sufficiently impressed by Rolm to pay \$228 million last June to become a 15% owner of the company. They will cooperate on various projects, including additional ways to connect IBM computers with Rolm CBXs. Rolm and Northern Telecom also have technology agreements with Data General and Hewlett-Packard. GTE is believed to have an understanding with DEC, and recently NCR acquired an interest in Ztel, a start-up company scheduled to bring out an advanced PBX early next year.

New, or third generation, PBXs employ advanced digital switching techniques which allow users to transmit voice and data simultaneously. With "non-blocking" architectures, all workstations connected to the PBX may be

Exploding Network Channel Capacities



This is a graphic illustration of the technological advances that have led to an exponential increase in network capacities.

C&C

COMPUTER AND COMMUNICATIONS

TECHNOLOGY

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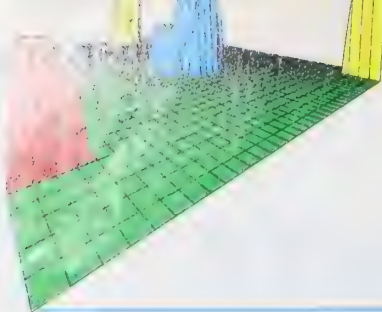
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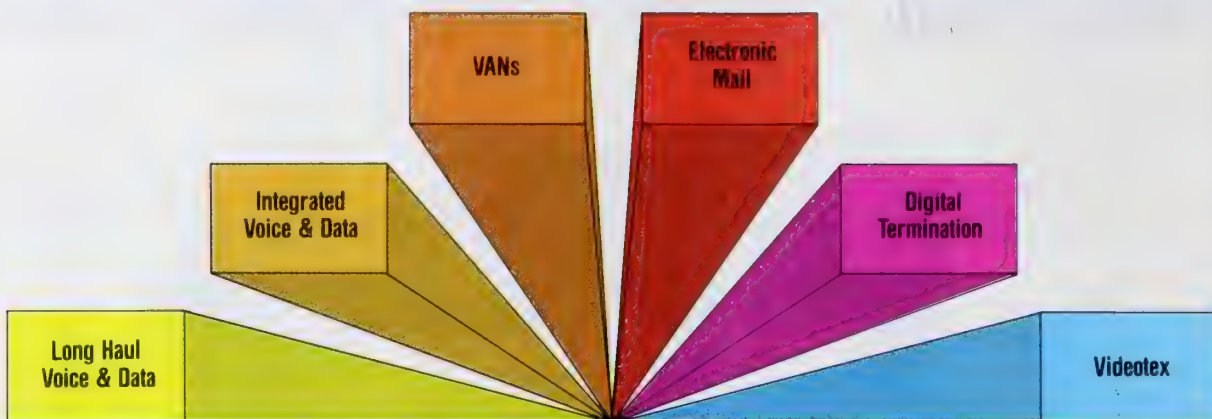
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INFORMATION NETWORKS: Emerging Trends & Markets



A Spectrum of Network Services



in use at the same time without danger of overloading the switch. Third generation PBXs can handle large volumes of data generated from a multitude of devices, communicating word processors and multifunction electronic copiers, mainframe computers and personal computers. InteCom, spun off from Exxon Enterprises, has enjoyed considerable success selling its Integrated Business Exchange (IBX), a PBX serving up to 8,192 lines; the IBX can interconnect with and even perform certain functions of Xerox's local area network, Ethernet.

NEW NETWORK SERVICES

New technology permits the link-up of customer-premises equipment and wide-area terrestrial and satellite networks; such information distribution technology includes BOC-provided terrestrial digital circuits, point-to-point microwave, and cable. In addition, the FCC has recently authorized completely new uses of the radio frequency spectrum, notably cellular mobile radio, digital termination service, national paging, and FM/SCA. Each will usher in new voice and digital transmission services to the user. As a result of these innovations, new network services such as electronic mail are becoming widely available and still others such as digital paging and videotex are being brought on stream.

Cellular Mobile Radio

The prospect of dependable automobile telephone services excites most business and professional people who dream of being freed of the tyranny of fixed-place telephones. After a decade of delay, the promise of mobile telephones is being realized with new cellular radio technology. Proposed originally by AT&T in 1971, cellular mobile radio is made possible by dividing metropolitan areas into cells, where adjacent cells have different non-interfering frequencies. With the use of low power transmitters, frequencies can be reused in different cells to serve large numbers of customers. As a mobile user moves from cell to cell, a call continues uninterrupted while transmit and receive frequencies are being automatically changed under the control of a central switch within a Mobile Telecommunications Switching Office (MTSO). Theoretically, cellular radio could be developed as a universal service that would bypass the copper telephone lines of local telephone companies.

Last year the FCC approved the use of new cellular technology, making 40 MHz of radio spectrum available for each metropolitan area to be served. In three massive waves of filings for operator licenses—over a thousand to date—telephone companies are competing for one of two licenses being awarded for each market; non-wireline carriers like MCI, Graphic Scanning,

and Western Union are competing for the other license. The rush for licenses is akin to the Western land grabs of the late 1800's.

It's no wonder small and large companies alike sense the opportunity. This new cellular technology promises to revolutionize local voice communications. Mobile telephones will become commonplace before the next decade. AT&T estimates that cellular mobile radio will be a \$6 billion market by 1990, a figure that may well be conservative.

With such high stakes, many players are rushing to the scene: telephone companies, such as AT&T, the Bell Holding Companies, and GTE; the non-wireline carriers, such as MCI and Western Union; telecommunications vendors; and manufacturers and suppliers of cellular technology and terminal equipment, such as Motorola and Western Electric.

In May, General Electric and Northern Telecom formed a partnership to develop an integrated system which combines Northern's DMS digital switch products with GE's expertise in mobile and portable radio units.

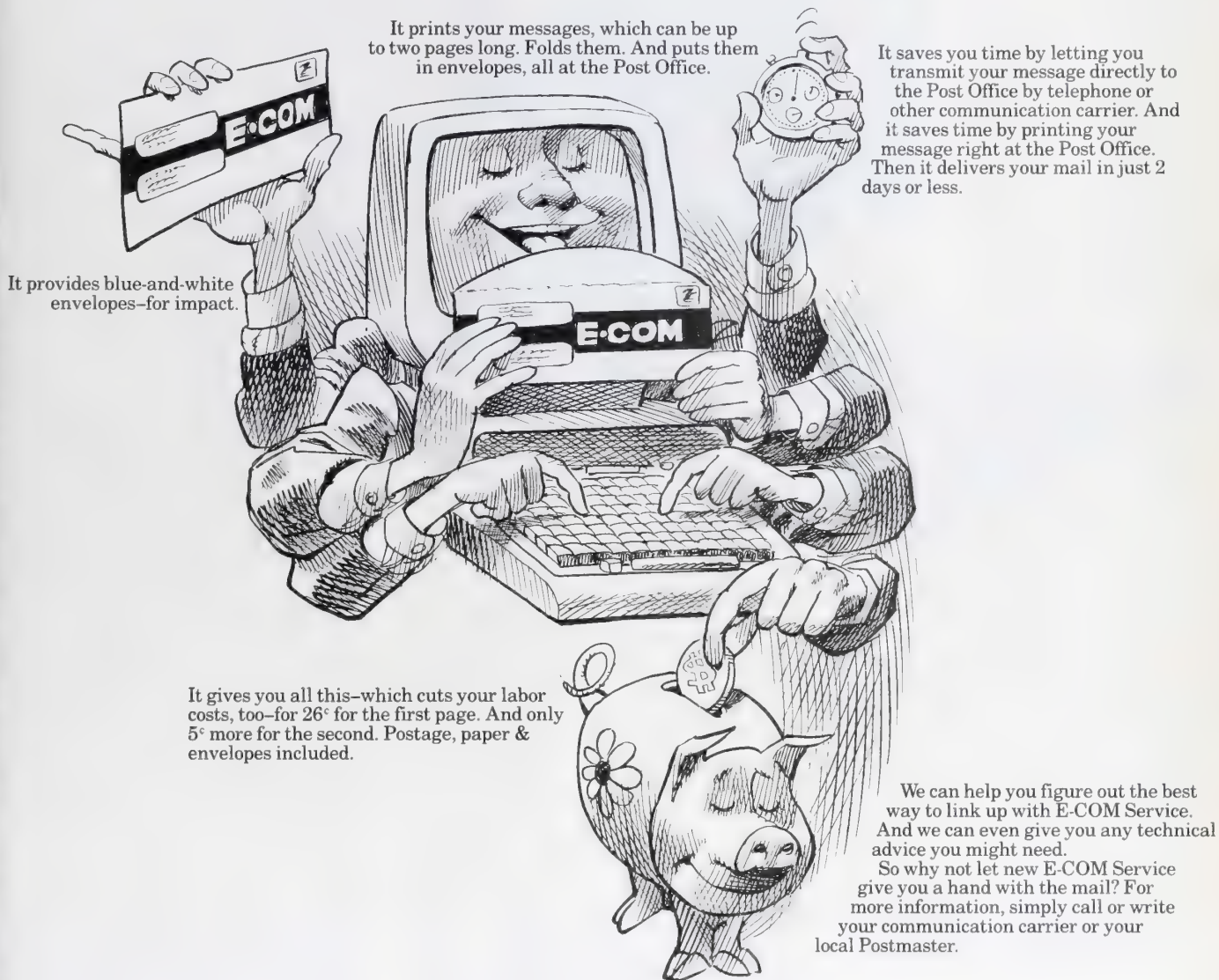
Over time, cellular radio systems will be linked to public and private data networks through digital switching at the MTSO. While essentially local in nature at present, cellular mobile systems will offer users expanded local telecommunications services that transcend the telephone company's local telephone lines.

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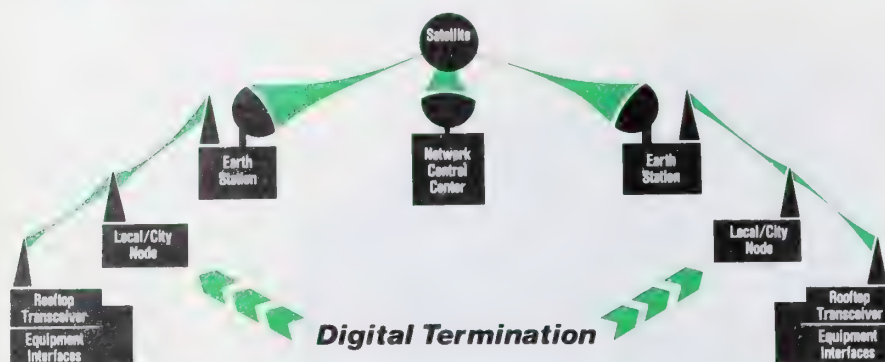
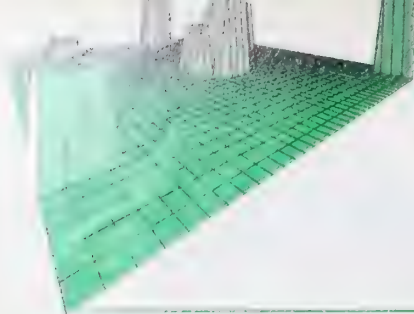
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Digital Termination Service

Digital termination service (DTS) is another exciting innovation made possible by cellular technology. A high-speed message service, DTS will bypass local telephone lines and deliver digital messages directly to its customers by means of local digital communications facilities plus microwave radio. This service will operate in metropolitan areas throughout the United States and will connect to other cities by terrestrial microwave or satellite networks. While primarily designed for the transmission of digital data, in time DTS will be enhanced to provide voice and image transmission as well. It should make it much easier for businessmen to exchange computer data, send facsimiles, and set up videoconferences.

Approved vendors for DTS systems and equipment must conform to FCC requirements. To date these vendors include M/A-COM's LDD subsidiary and Nippon Electric (NEC). Other probable DTS service providers: United's ISACOMM, SBS, Tymnet, MCI, Contemporary Communications, DTS, Inc., Digital Telecom, and Local Area Telecommunications, Inc.

Since DTS can bypass local loop facilities of the Bell operating companies (BOCs), the BOCs are seeking DTS licenses to extend their own digital service capabilities. For example, Chesapeake & Potomac Telephone (C&P), a group of four BOCs serving the District of Columbia, Maryland, Virginia and

West Virginia, proposes to build a DTS network that would interconnect local facilities with interexchange facilities. C&P intends to offer long-haul transmission of voice and data. Illinois Bell is also applying for a DTS license with hopes of offering a variety of long-haul communications services.

Electronic Mail

While DTS still lies in the future, other electronic message services are now available: TWX, Telex, facsimile, and computer based message systems (CBMS). Recognizing this competition, the U.S. Postal Service has initiated its own electronic mail service, E-COM.

E-COM utilizes the Postal Service's universal delivery system in conjunction with new electronic transmission capabilities to deliver computer-generated messages. E-COM is aimed at the high volume mailer (those that send at least 200 computer-originated messages). Messages are transferred directly from the magnetic tape used by computers. E-COM uses transmission and interconnect services from common carriers to transmit messages to servicing Post Offices around the United States.

CBMS offers end-to-end electronic mail at cost-effective rates. The origin of CBMS can be traced to ARPANET, the nation's first packet network. The early users of ARPANET found the network ideal for sending each other mail electronically; messages were sent in efficient packets and read immediately or

stored for later retrieval. Today, Telenet, an outgrowth of ARPANET, offers Tele-mail, an electronic mail service for message delivery nationwide and overseas.

Other popular CBMS services are Computer Corporation of America's COMET, ITT Dialcom's Intercomm, CompuServe's Infoplex and Tymshare's OnTyme. CBMS services are generally user-friendly with transmission speeds at 110-1200 bps and can access public data networks such as Telenet, Tymnet, and Uninet. Messages are sent to and delivered from electronic "mailboxes" which are personal to and secure for the addressee. A user assigned a personal mailbox simply dials in for mail at his or her convenience using a personal code. Messages may be short or long and can include documents, graphs, charts, and tables.

Already, voice mail is here. With new digital network capabilities, voice can be digitized and stored in electronic mailboxes, which are segments of computer memory assigned to individual users. When the user accesses his or her mailbox, the computer retrieves the message from memory and converts it back to voice for delivery.

Voice mail is especially suitable for professionals and managers who are frustrated by the time consuming phenomenon known as "telephone tag". Voice mail not only assures messages are received, but that they are delivered verbatim. Facing a \$15 billion dollar market potential, major companies are already offering reliable and affordable voice mail services. IBM's "Speechfile" runs on its Series/1 computer. AT&T offers voice mail series as a new feature of its Dimension series. Other players include Rolm, which announced its service before AT&T. Lanier, recently acquired by Harris Corporation (a technology leader in integrating computer and communications technologies), offers its "E-Z Mail" system that, together with its recently announced local area network, should keep it at the forefront of the office market.

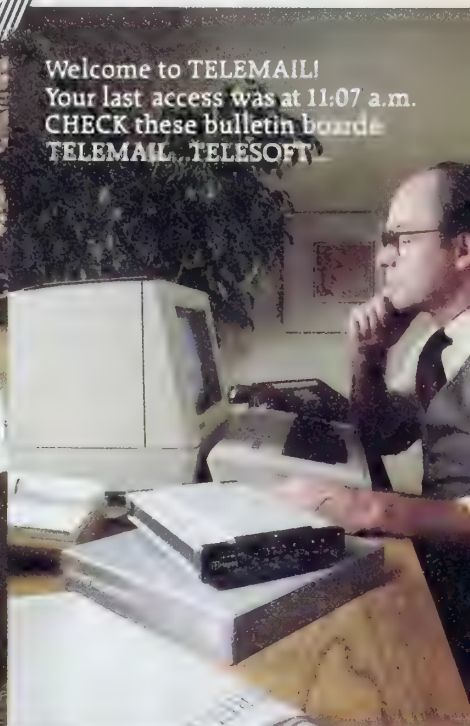
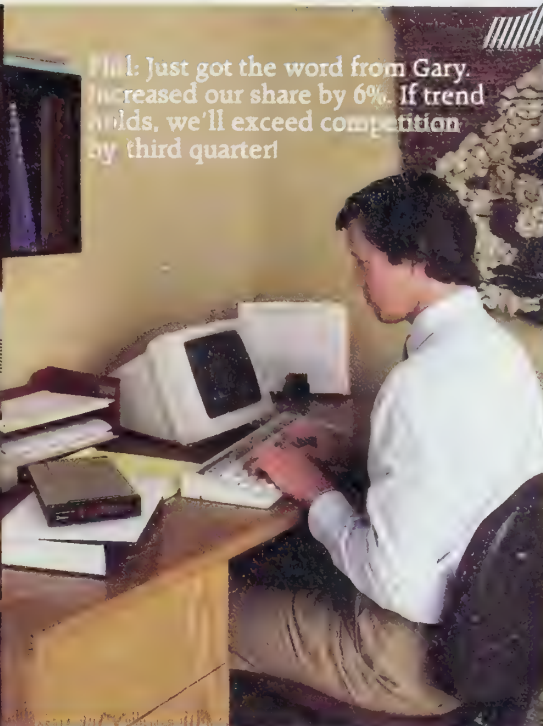
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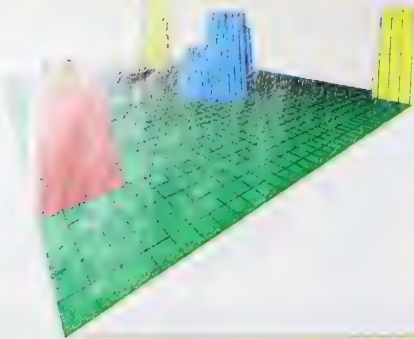
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INFORMATION NETWORKS: Emerging Trends & Markets



becoming significant in electronic mail systems. They dramatically lower the cost of using electronic mail by taking message preparations off-line. But they can do far more. Spreadsheet capability and word processing can be applied to electronic mail. The problem is that relatively few personal computers are now equipped with the necessary network interfaces and modems to transform them into information terminals. But this market opportunity has not gone unnoticed. Suppliers such as Microm Systems, Timeplex, General DataComm and Infotron are providing a number of network options, such as low-cost, easy-to-use interfaces and modems to tie together various network elements. Hayes Microcomputer Products, the leading modem suppliers for personal computers, gained recognition with its "Micromodem" designed for IBM PCs and Apple IIs. Recently, Hayes extended its market reach with the "Smartmodem," which works on virtually any personal computer. Over the next several years, as more and more network elements are made compatible with one another and tied together, electronic mail systems are expected to grow dramatically and new services added at incremental costs to the user.

Message Paging

New paging networks are being developed for nationwide, electronic message delivery service in the 900 MHz frequency band. An increased number of frequencies are now available and with advances in digital paging technology the packet beeper can now beep 'n spell messages up to 160 characters on alphanumeric display. The paging market has entered a period of exploding growth. Since the numeric pager was introduced in 1981, the number of pagers in use has doubled to two million. With the recent introduction of alphanumeric pagers, the market is expected to reach 20 million units in use by 1990, representing an annual market in equipment and services of \$6

The expanding paging market has attracted three early starters. A consor-

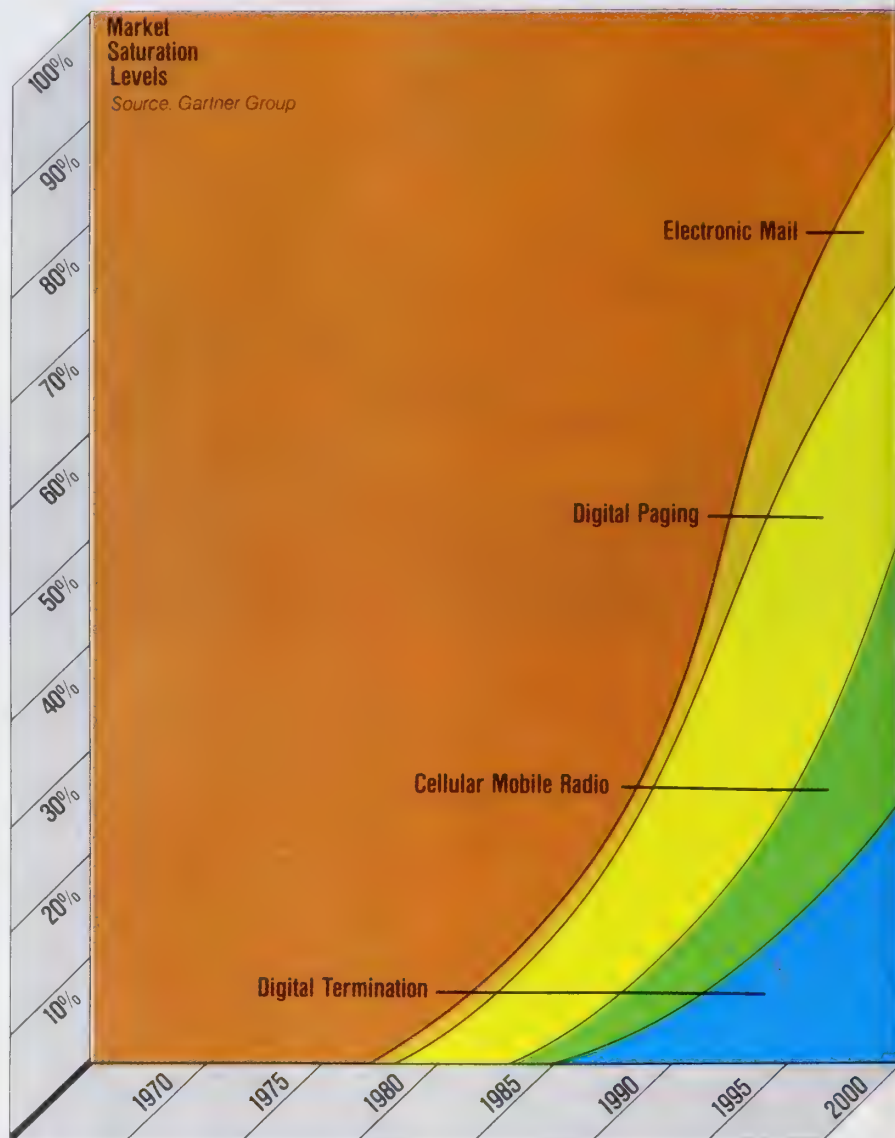
tium comprised of MCI, American Express, Communications Industries, and Metromedia has announced plans for a national paging network eventually extending to 200 metropolitan areas. Millicom, a telecommunications company that is developing cellular mobile services, was awarded the first national license by the FCC; its plans call for a national service in 31 markets serving 45 U.S. cities. Page America, another

player likely to establish a national paging network, has joined forces with RCA Global Communications to develop a worldwide service.

FM/SCA

As information services become portable, one of the most exciting prospects has come out of the shadows of FCC review. This year, the FCC gave the go-ahead for FM subsidiary communi-

Emerging Network Services: Looking at a Steep Ramp



The years leading to the next century will see literally an explosion in new information networks and network services taking hold in businesses and homes. This represents a likely scenario for the rates at which those markets will be reaching maturity.

Radio Shack's TRS-80 Model 100 is an amazing machine."

—Byte Magazine, Page 34, May 1983

"When I consider the unheard-of abilities contained in this small, under \$1000 package, I must rate the Model 100's performance "excellent."

—InfoWorld, June 27, 1983

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—Computers & Electronics, May 1983



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And Basic Computing says Model 100's BASIC language "... gives perhaps the most accurate transcendental mathematical functions in any computer." In its May, 1983 issue,

Money magazine said "... the Model 100 is so packed with goodies that it could well become the machine of the year. Just the fact that someone who knows absolutely nothing about computers can sit down ... and in less than 10 minutes be writing letters on it puts it in a class all its own." Read enough? Then get your own TRS-80 Model 100 at your nearest Radio Shack Computer Center or participating store or dealer!

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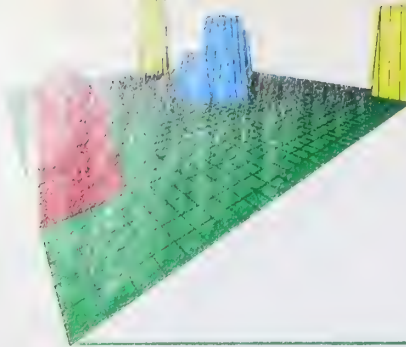
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INFORMATION NETWORKS: Emerging Trends & Markets

cations authorization (SCA). Though everyone is familiar with FM radio, people are generally unaware that FM has an unused subcarrier band. This band is now available to provide information services for portable application, such as electronic mail and database access. Coupled with a satellite network, FM/SCA systems can beam electronic messages, documents, and data from coast to coast.

A relatively new company, Data-speed, Inc. has introduced a handheld stock quotation system using FM/SCA technology. Telenet has a stock quote terminal called "Pocket Quote," which picks up fairly current (within 15 minutes) stock prices broadcast over an

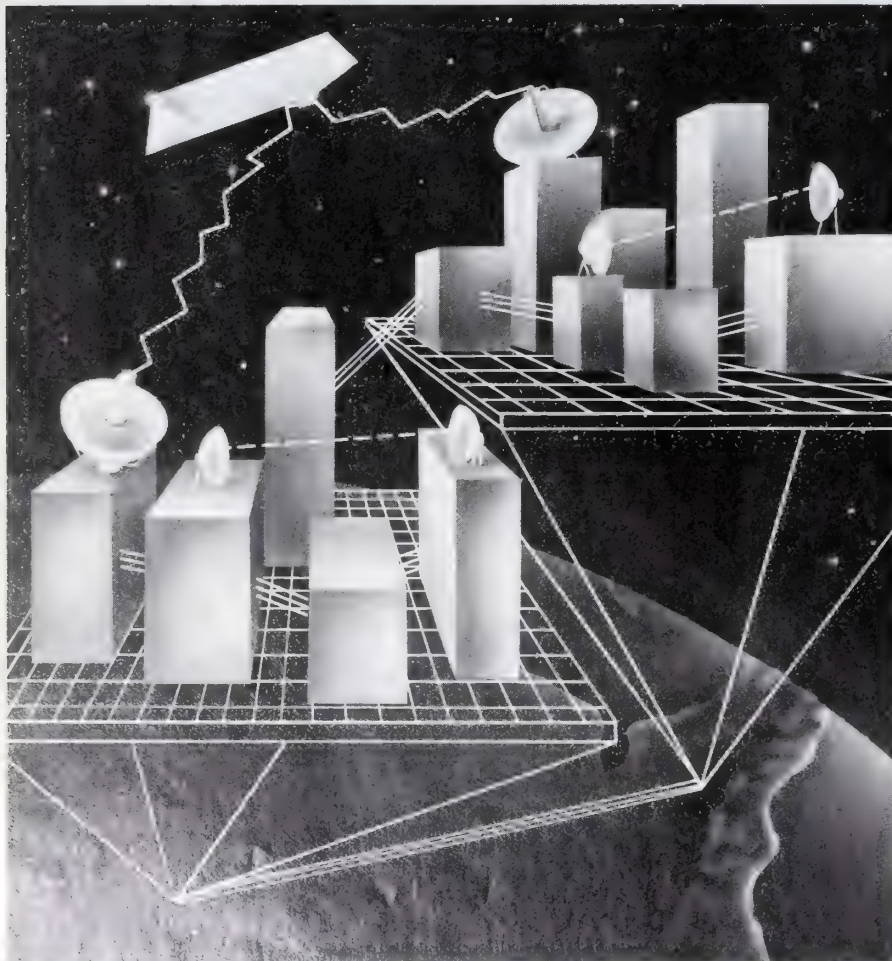
FM subchannel. Motorola has also announced a subchannel pager, with plans for a full line of equipment next year. Uses for FM subchannels information services are virtually limitless given the pervasive nature of broadcast signals.

Videotex

Videotex is an information network service that has emerged from the linkage of computers with telecommunications facilities. Videotex transmits text and graphic information via cable, radio or microwave to a display terminal that can be a television set equipped with a decoder, a dedicated videotex terminal,

or a personal computer. Through his or her terminal, a user has easy access to information contained in computerized databases. What makes videotex so promising is its interactive nature. This means that users can carry on "conversations" with databases and thus be able to make business transactions immediately. Thus, a user of Dow Jones News Retrieval, seeing that a stock has reached the right price level, can send his or her broker a buy or sell order.

Videotex services are designed for home and business use. Services include home shopping and bill paying, directory services, weather, sports, telebanking, airline reservation services, financial and legal services, electronic



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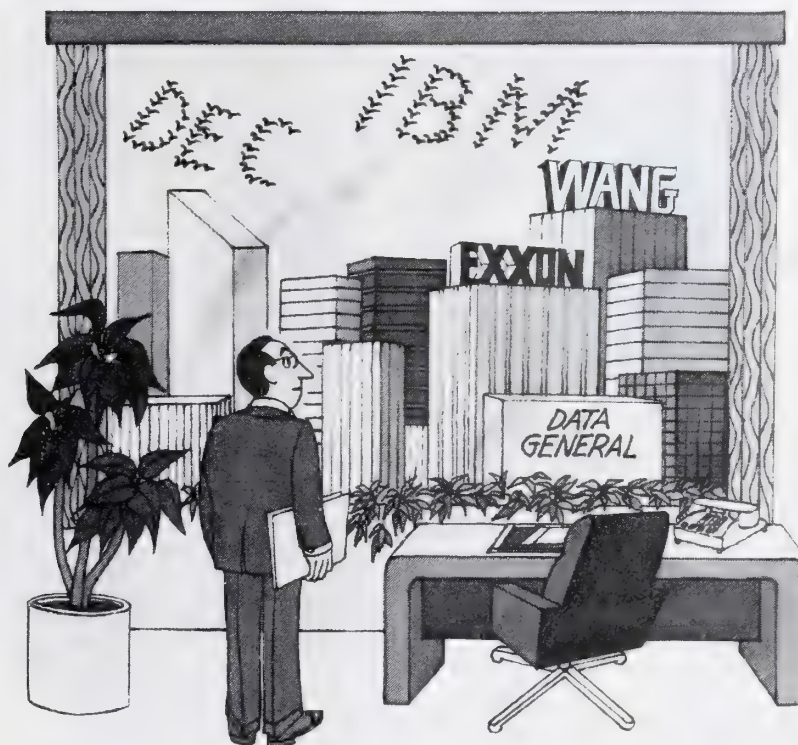
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INFORMATION NETWORKS: Emerging Trends & Markets

newspaper and magazine delivery, and even electronic encyclopedias. The graphics capability of videotex permits the delivery of tables, graphics and charts for business and educational services. And new videotex techniques provide superior color and graphics capability.

What are some of the business advantages of Videotex? Increased productivity, for one, resulting from speedy access to current information heeded by the decision maker. As an advertising and sales medium, videotex will broaden markets without the business

tex standard. Today, PLP is considered the North American standard.

AT&T joined with Knight-Ridder Newspapers in Florida to develop a videotex system. Now operational, Knight-Ridder's Viewtron service is offered through a wholly-owned subsidiary, Viewdata Corporation of America. Viewtron service is now expanding nationally through gateways that will link its computers in Miami with host computers of major U.S. corporations. The seven gateway arrangements are with American Express, Commodity News Service, E.F. Hutton, Grolier Aca-

Conclusion

Information networks and information services are experiencing rapid and dramatic growth. Such growth is being driven by great advances in integrating computer and communications technologies, by deregulation, and by the fundamental restructuring of the Bell System. When the BOCs become independent corporations in 1984, local telecommunications facilities will be more widely interconnected with radio and cable networks and with terrestrial and satellite long-distance networks. In addition, the development of specialized information databases has increased the demand for networking services. The widespread availability of personal computers, which can be connected to networks, will result in further increases in the demand for online databases and information services. Information networks have come of age.

ABOUT GARTNER GROUP

Gartner Group serves strategic planners in the computer, telecommunications, office, and home information industries. Its worldwide clients include suppliers of products and services, users, and institutional investors, all of whom recognize the increasing complexity of information industry environments. Clients who retain Gartner Group receive frequent research notes, indepth analysis reports, interactive conferences, and telephone dialogue. The noteworthy attributes of Gartner Group are its Wall Street orientation towards evaluation of vendor strategies, its understanding of all three client constituencies, the seniority of its staff, its bias towards continuous and "bottom line" dissemination, its efficient intelligence processing system, and its emphasis on collecting original data, measuring the industry, and developing strategic industry scenarios. Thus, Gartner Group clients obtain the most insightful, timely, accurate and thorough strategic competitive analysis and market planning information available.

"Information Networks" was written by Gartner Group Inc. and produced under the direction of Kenneth A. Smalheiser.



expanding its marketing outlets. Through videotex, vendors and consumers will have efficient access to one another. Electronic catalogs will bring product and price information to buyers who can then enter orders over their videotex terminals. In the office videotex will be important for decision making, enhanced communications, and transaction processing. It will also serve the traveling businessman. In airports, malls, or convention centers, videotex will deliver information on transportation, lodging, dining, the community, stores, and entertainment.

The promise of videotex has drawn worldwide investments totaling \$1 billion. Although only 150,000 users can be counted today as being involved in commercial and experimental systems, AT&T estimates that 7% penetration of the enormous total available market will be achieved by 1990. And AT&T intends to play a major role in the videotex market. In 1981 it proposed the Presentation Level Protocol (PLP) as an enhancement to Canada's Teledon video-

demic American Encyclopedia, J.C. Penney, Official Airline Guide, and Video Financial Services. These gateway arrangements will provide Viewtron subscribers with merchandise ordering, banking, stock market quotations and portfolio status, travel planning, and access to an electronic encyclopedia.

AT&T and IBM have both entered the videotex market with systems, AT&T with its "Sceptre" consumer terminal targeted for consumers and IBM, with the Series/1 Videotex System (SVS/1) aimed at the business market. In a joint venture, Honeywell, Centel, and Field Enterprises have launched a large-scale videotex system, called Keytran. Keytran will allow home and business users to retrieve information and transact business on a TV screen or a special videotex terminal. Users will also be able to send electronic messages to one another in real time. The modular system design of Keytran combines the computer technology expertise of Honeywell and the information resources of Field Enterprises.

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... just when things were going so well for Thomas Weber's cremation company, along came Melvin Belli . . .

Burning questions

By Carol E. Curtis

BEFORE HIS DEATH IN 1956, Thomas Weber's father said he wanted to be cremated. So young Weber set out to make the arrangements. To his surprise, he says, he could not find a single undertaker within 100 miles of his home in Oklahoma City who was willing to carry out his father's wishes. Instead, he says, the undertakers tried to talk him into an elaborate, and expensive, cemetery burial.

The experience so impressed Weber that he eventually left his career as a successful biochemist and founded a cremation company. In 1971, with \$25,000 of his own money and an equal amount raised among friends, he set up shop in California, a state with one of the highest percentages of cremations in the country. He called his company Telophase—the scientific term for the last stage in a living cell.

Weber worked hard and got lucky. He had all the business he could handle from the beginning. So far, so good. But then Weber came up against one of the slickest and most effective lobbies in the U.S.: the funeral industry. As operators of a \$6.4 billion annual business, the nation's 45,000 funeral directors have a vested interest in keeping funerals complicated and costly. This means avoiding cremation. The average funeral now costs \$3,115, but one can easily run thousands more. The cost of a no-frills cremation, by contrast, rarely exceeds \$500.

Not long after Weber went into business, California undertakers launched a battle to drive him out. They had a lot going for them. Undertakers there dominate the government body that is supposed to regulate them, the State Funeral Directors Board. Weber was soon hiring lawyers to fight a bill pushed by the board that would have required crematoriums to install—obviously to no purpose—



Thomas Weber of Telophase at a crematorium
Will Melvin Belli lower the body count?

costly embalming facilities and a chapel seating 50 people. That bill died, but now Weber is bracing for another attack. The board is said to be preparing a suit to require that all crematorium office managers be licensed funeral directors. With the opposition's bills paid by the taxpayer, Weber has reason to feel the odds are stacked against him.

But despite sky-high legal bills, the business prospered. Weber expects privately owned Telophase to do \$12

million (revenues) of business in 1985, still a small operation but the largest of its kind in the country. It has grown at an annual rate of approximately 20% in the past 12 years and now has 11 offices nationwide.

Companies like Telophase are one reason cremation has become a high-growth business. But the negative image of the funeral industry has also helped—especially since publication of Jessica Mitford's widely read attack on it, *The American Way of Death*, 20 years ago.

The fact is, the funeral business is steadily shrinking. There are now 22,000 funeral homes in the U.S., 2,000 fewer than a quarter century ago, and many more people are choosing cremation: The percentage of cremations to total U.S. deaths has more than tripled since 1960, to about 12%, or 240,000 a year. In some states, like California, it approaches 40%.

But the funeral directors won't take this lying down. Lately they have come upon what is likely to be one of the most potent counterattacks yet on cremation. Some 200 California citizens have filed or are about to file suits charging that bodies have been

burned en masse by at least one crematorium in the state. It doesn't hurt that their attorney is the flamboyant San Francisco trial lawyer Melvin Belli.

Well before the bulk of the cases go to trial, Belli is heaping on the cremation business the sort of bad publicity that has tarred undertakers for years. Belli asserts that the practice of multiple cremations has become endemic to the industry, so that when ashes are returned to the family they can no longer be sure whose they are getting. Belli is asking for millions in damages on behalf of his clients.

Is there any truth to Belli's allegations? A defendant in the suits, Harbor Lawn (Telophase was not named), will not comment. But regardless of Harbor Lawn's guilt or innocence, the entire cremation business is likely to be hurt: "These suits are a blight on the industry," Weber says.

Still, economics and social trends—including the growing tendency of families to live apart—strongly favor cremation. It seems unlikely that even a Belli can slow the cremation business for long. ■

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BANK OF MONTREAL

Edited by Stephen Kindel

Baseball is the stuff of legend, all right. The proof is that so much of the sport—from the nightmare physics of batting to its antiquated and often suspect statistical notions—makes little sense.

"The hardest single act in all of sports"

STANDING IN THE BATTER'S BOX at Yankee Stadium, Rod Carew is a paradox: Though his gaze is fixed on the pitcher, his body—especially his hands—is relaxed. Goose Gossage, the Yankee reliever, is worried. Gossage's specialty is the fastball strikeout, but this year his fastball has often deserted him. Gossage's velocity, normally a searing 98mph, is not quite up to par, and his control is off. Against any ordinary hitter, Gossage might be able to get by, but Rod Carew is hardly ordinary. He rarely strikes out, and in addition to owning the premier batting average in the American League over the last 15 years, he is especially dangerous with men on base.

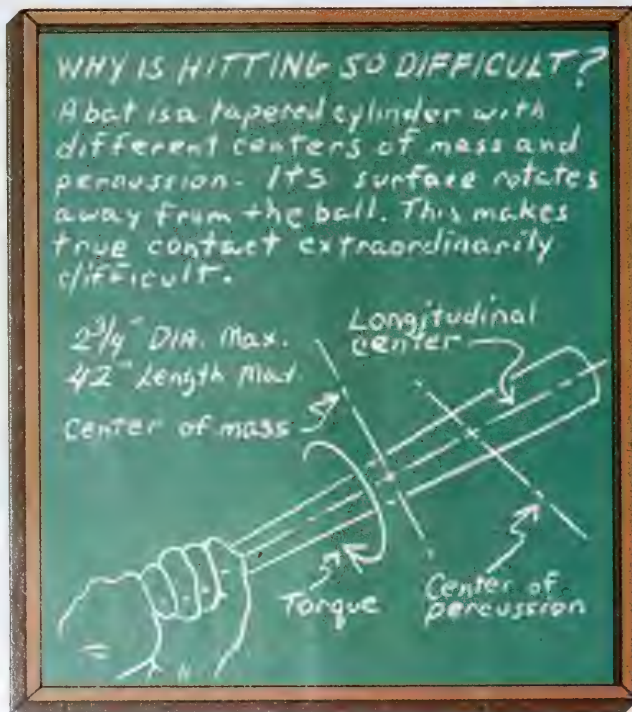
Advantage Carew? Not this time. He strikes out swinging on three straight fastballs and walks disconsolately back to the dugout. It's been that kind of year for Carew. While his average is well above .350, Carew is struggling. Maybe, as sportswriters have suggested, it is the accumulated pressure of a torrid early season—he was hitting above .400 through the All-Star break. But maybe it is just the accumulated reality of hitting.

The fact is that hitting a baseball, even for a genuine star such as Carew, is the hardest single act in all of sports. Nothing else—not sinking a basket, hitting a tennis ball, throwing a touchdown pass—makes so many otherwise gifted athletes look so futile so often.

The complexity of hitting is why baseball, of all sports, rewards relative failure so well. An NFL quarterback who hit his receiver less than 50% of the time or an NBA center who sank fewer than half his baskets would soon be training as a stockbroker or selling beer. But baseball rewards .300 hitters—failure rates of 70%—with enormous contracts.

Why is a baseball so hard to hit? Because it is far more than simply making contact with the ball. Hitting a baseball true requires the resolution of a whole array of complex mechanical forces, many as yet unmeasured and often poorly understood.

Simplifying it greatly, a hitter is a set of hinged levers propelling the end of the bat in a slightly upward arc. As he brings the bat around and forward, his hands exert a negative torque, a backward rotational force, on the bat handle. Since the handle is the thinnest part of the bat, that torque is far more pronounced at the head of the bat and may account for a given point on the bat head rotating as much as half the circumference of the bat head away from the ball as contact is made. The exact amount of torque exerted varies from player to player. It's a function of the batter's weight, how large his hands are, how heavy the bat is and how well he is able to keep his top hand on the bat as it comes around. All this can take place at speeds approaching 90mph, against an opposing object traveling at a



similar velocity.

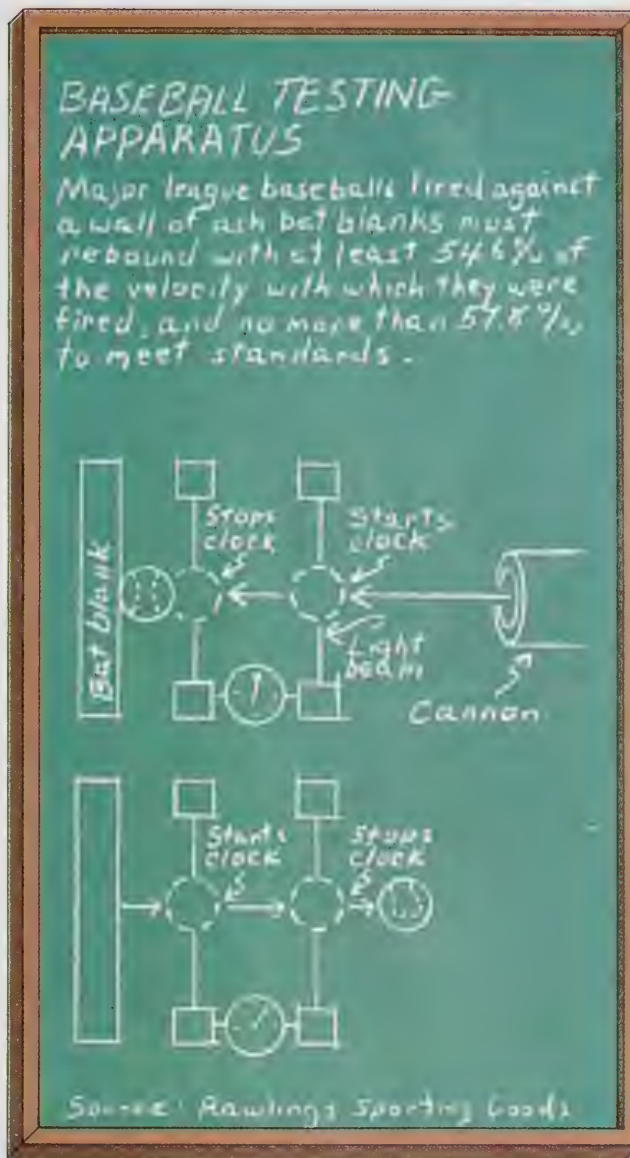
Moreover, the baseball itself, a sphere covered with stitched cowhide (the major leagues switched from horsehide in 1973), also militates against the batter's success, since, no matter how the ball is rotated, seams are distractingly visible. Also, the pitcher stands on a mound some 10 inches higher than home plate. That magnifies the downward angle of the ball as it approaches the hitter, luring him to swing upward in order to make contact. It is right there, probably, that so many hitters go awry: Greater upward motion causes greater torque on the bat and lessens solid contact with the ball. A smart hitter like Carew avoids this problem by swinging slightly downward on the ball, cutting down the angle and all but eliminating the torque.

Angles aside, there is still the rotational problem. As a ball leaves a pitcher's hand, it begins to spin. A Gossage fastball thrown at 98mph will turn about its circumference approximately 40 times in the .42 of a second between Gossage's release and Carew's attempt to make contact. While the ball spins, it also wobbles a bit because Gossage's fingers did not leave its surface all at once. If Gossage is throwing one of his infrequent change-ups or curves, he will change his grip on the ball so the seams are perpendicular to the direction in which the ball will be thrown. This changes the downward arc of the ball, making it appear to dive or swerve suddenly as it approaches the plate.

Even if the hitter defies the odds at that point and makes contact, moreover, the nightmare tolerances of the physics involved will propel the ball to where a fielder will almost always catch it. The only sure hit in the game is the home run, which has, not surprisingly, become more and more important. Helped by a livelier ball and a tendency of batters to swing for the fences, home runs as a percentage of total hits have increased from less than 2% in 1900 to about 10% last year.*

Put it all together—the speed, spin, wobble and downward angle of the ball versus the speed, upward angle and torque of the bat—and then throw in a variable coefficient of friction to deal with the effect of the ball's cowhide surface as it meets the ash of the bat (sweetened or not by

*This is not, as some may argue, due simply to the emergence of the lively ball in 1920. True, during 1921-46, home-run hitting jumped from 2% to 4.9%. But after 1947, slugging really took off, almost doubling again. This is probably because of the emergence of the lively ballplayer, a better-fed, better-conditioned athlete than his hard-drinking, smoking and womanizing prewar precursor, the construction of new ballparks designed to favor long-ball hitters and the persistent tampering by owners with older parks to build "penman porches" for their players.



pine tar), and it's a wonder that a batter ever connects accurately at all.

Champions are born, it would appear, not made

"Gee, Catfish, you're really in good shape."

"Well, Frank, now that I work for a living, I have to exercise."

(Conversation between Yankee broadcaster Frank Messer and Catfish Hunter, who retired in 1979, at a recent Yankee Old-timers' Day game)

If baseball is such a difficult sport, you would think players would spend years in study and self-denial acquiring their skills, and practice hours daily keeping them sharp.

Not so. Among athletic performers only bullfighters—for obvious reasons—may practice their skills less than major league hitters. Junior hockey players put in hours working on their skating and shot control. Everyone knows the hoary tales of NFL quarterbacks who spent their formative years throwing footballs through an automobile tire hung from the family oak. Professional basketball players, a close second to major league baseball players in average earnings, practice like mad, and they have a much easier time

of it, given that the mechanics of shooting baskets are essentially ballistic in nature. Youthful tennis players commonly practice seven or eight hours a day, and the mechanics of tennis are a breeze by comparison with baseball, especially with the newer, large-face graphite rackets.

This has not been lost on the public. Huge numbers of people, attracted by rising prize money, put themselves or their children on the competitive trail during the 1970s because they had observed, correctly, the strong correlation between practice and improvement.

Curious. Baseball players seemingly need to practice more, but they hardly practice at all. Says Dave Winfield, the Yankees' \$25 million (over 10 years) outfielder: "Practice? If I had to take an hour or two of batting practice every day, I'd be too tired to play baseball." Freddy Lynn, a .301 lifetime hitter, doesn't believe much in practice, either: "I never saw anybody with mediocre ability become a star through more batting practice. Either you have natural ability or you don't. For the guys that do, it's just a matter of whether it will come out over time."

But Lynn isn't bragging when he decries practice. Rather he is blaming society for forcing baseball stars to rely on their natural abilities. "Most of baseball is pretty disorganized," says Lynn, an affable, articulate athlete. "The coaching, even up through the minor league level, is



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miserable. Baseball is a team sport, and it's expensive to outfit a whole team. Sponsors at the Little League and American Legion level don't want to spend the money and they won't buy a pitching machine, so you're hitting—especially in the early stages of your development—against people who can barely get the ball near the plate. Only someone with God-given talent, and an awful lot of perseverance, is going to make it up to the major leagues.” Is Lynn right? Charley Lau agrees with everything Lynn says, but disagrees emphatically with the conclusion. As hitting coach for several American League teams, Lau has been credited with, among other things, adjusting George Brett's swing and practice habits. This paid off in 1980 when Brett hit .390. The Almighty might have supplied Brett's ability but practice does help.

Lies, damned lies, and baseball statistics

“You could look it up”

(Title of a short story by James Thurber)

No other game is charted and scored with the intensity of baseball, and no other sport's athletes are statistically scrutinized so thoroughly. It's all there in *The Baseball Encyclopedia*—the year-by-year and lifetime performance of every major league ball player. However difficult the arts of hitting, fielding and pitching, the torrents of statistics available in the *Encyclopedia* are surely sufficient to settle any argument about comparative performance, no?

No. In truth, baseball statistics are not statistics at all. They are accounting ledger entries, to which little or no statistical manipulation has ever been applied. *The Baseball Encyclopedia* settles no arguments, it creates them. If baseball statistics are to have any meaning, they must provide fans and sportswriters alike with unassailable proof of greatness. That way no truly undeserving player would ever enter the Hall of Fame, and no deserving player would ever be ignored. Better statistics would help us understand the fate of the Ed Reulbachs of the world.

Who? Ed Reulbach was a pitcher who spent the best part of his career with the Chicago Cubs in the years up to World War I. Reulbach compiled a lifetime .640 winning percentage, with a won-lost record of 185-104, and a single season winning high of 20-4, or .833. To this, add his lifetime earned run average of 2.28 and 40 lifetime shutouts. What it all adds up to is a man who was one of the better control pitchers of his generation. So how come you never heard of him?

Technology

bach's. Reulbach is not in the Baseball Hall of Fame at Cooperstown, N.Y. Dizzy Dean is.

Why? According to Bill James, author of the annual *Baseball Abstract* and leader of a growing contingent of statisticians attempting to bring some scientific method to the ledger entries of baseball through the aegis of the Society for American Baseball Research, Ed Reulbach did not pitch well enough where it counted. Selections to the Hall of Fame are by a vote of sportswriters, of course—expert but subjective. What impresses sportswriters? James' analysis of modern-era pitchers voted into the Hall of Fame shows they need 100 points on a complicated statistical formula he has devised that emphasizes superior or single season events—20-win seasons, 30-win seasons, World Series appearances and wins—miracles, in short. Since 1900 all but two pitchers who accumulated 100 points by his formula made the Hall of Fame, and only three who did not attain the 100-point level made it. Reulbach earned 83 points under James' formula, but a single 30-win season, for example, or a few league-leading ERA or strikeout performances would have pushed him over 100 and given him entry into the Hall. Simply having a very low lifetime ERA, or amassing many strikeouts or ranking twelfth in fewest hits per nine innings over a lifetime—consistency over a career, in other words—is not good enough to get you into Cooperstown.

By James' analysis, Yankee pitcher Ron Guidry will wind up as a latter-day Ed Reulbach. Guidry's 1978 season, a 25-3 (.893) performance, is itself a difficult feat, the best single season ever by a starting pitcher winning more than 20 games. His lifetime winning percentage, .709 through most of the 1983 season, is significantly higher than Whitey Ford's .690 and just below Spud Chandler's .717. Guidry's 7.15 strikeouts per 9 innings places him tenth on the alltime strikeouts-per-game list, ahead of such retired legends as Rube Waddell and Don Drysdale and ahead of active legend Steve Carlton, a sure bet to make the Hall of Fame under James' formula. Guidry's 7.83 hits per 9 innings ties him with Vida Blue, another James candidate for the Hall, in efficiency, and far surpasses Hall of Famers Cy Young and Christy Mathewson.

Yet Guidry, under James' formula, has earned only 66 points to date, far from the 100 needed to make the Hall of Fame. Guidry could pick up another 10 to 15 points this year, depending on how his

WARMING UP

Reliable data correlating big league salaries and preparation for same don't exist. But FORBES has estimated, from interviews, childhood recollection and arbitrary assumptions, what it typically takes to make the big time. Salary data are real.

Sport	Practice & competitive experience before the pros	Average annual salary
Baseball	1,100 hrs.	\$291,497
Basketball	40,000+	\$240,000
Tennis	40,000+	\$199,560
Golf	10,000+	\$164,265
Hockey	25,000+	\$120,000
Football	1,800	\$90,412

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season ends and whether or not the Yankees make it to the World Series. That would burn Guidry into the mind's eye of the sportswriters and, better, earn him points under James' formula. But as a hard-throwing lefty who did not make the big leagues until a relatively late 25, Guidry, now 33, is susceptible to having his career come to an end within a year or two, without ever having reached James' magic 100 points. A great pitcher, but not, apparently, a legendary one (see chart, opposite).

Technology

rendered into a won-lost percentage. From this he calculates a "responsibility" for games, based on the number of outs a player has made and, applying the won-lost percentage, arrives at a won-lost number for each ballplayer. This is combined—if you're still with us—with a defensive ranking that takes into account errors, double plays, total chances and other arcana, and finally arrives at

A matter of value

"I had a better year."

(Babe Ruth in 1930, on reports that he made more than Herbert Hoover)

Baseball statistics are a doubtful guide in even the most important questions, at least for the players and owners: How much should a person make, and how much should a person pay, for that line of work? Whether an owner has paid too much for an aging star, or has traded away a quality player for new players of dubious value, has animated debate at least since Yankee owner Jacob Ruppert bought Babe Ruth's contract in 1920 from the Boston Red Sox for the then-unheard-of sum of \$125,000.

The shock engendered by that trade, and the years of pennants and World Series that followed, have led to smug and occasionally resentful cracks about how the Yankees have "bought" their success, and oh-so-knowing insights into how Yankee owners from Colonel Ruppert to George Steinbrenner have tailored their teams as carefully as they have tailored their ballpark, consistently breeding or trading for players whose gifts coincided with the particular character of Yankee Stadium.

Not so. Until it was renovated in 1974-75, Yankee Stadium was very much "the House that Ruth built," cavernous in left and center fields but with a right-field foul pole just 296 feet from home plate. But Yankee stars who followed the left-handed-hitting Ruth have fared not nearly so well in that house. Joltin' Joe DiMaggio, who hit right-handed, hit 16 points lower at home than he did on the road over his 13 years in pinstripes. In his best year, 1939, when his .381 led the American League, the Yankee Clipper's spread was an astounding .413 on the road against .350 at home. He hit 18 of his 30 home runs and 76 of his 126 RBIs on the road that year. Lifetime, he drove in almost 100 more runs and slammed 65 more homers outside of Yankee Stadium than he did in it.

And so it has gone for other Yankee greats. Gehrig was a road warrior, and so was Bill Dickey. And so, too, are Ken Griffey, Graig Nettles and Dave Winfield today. The statistics, imperfect as they are, show that all the oh-so-knowing insights into what George is up to are baseless.

A game won away counts just as much as a win at home. What the world needs now is a way to cut through the nonsense of home field advantage and arrive at a statistically reliable way of measuring true value. Lucky for the world, Bill James and his associates, a collection of fanatics numbering more than 2,500 at last count, are working hard at just such a method.

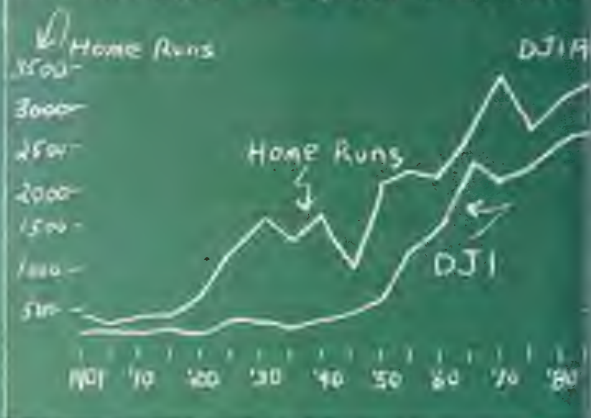
In its present state of research and development, the formula is already breathtakingly complex. James calculates a player's offensive capabilities by the number of runs he has created per 25.5 outs, converted into runs created per game. (Why 25.5? Never mind. Think of it as a working coefficient.) That figure is adjusted for variances in a player's home park against a league norm, and is then

FINDING MEANING AMONG THE NUMBERS

The Society for American Baseball Research contends that batting and slugging averages as such are not true indicators of a player's worth, but rather his ability to help his team score, by any means. To this end, the society has developed the base-on-percentage (BOP). It's a ratio of total bases made—hits, walks, being by a pitch, stolen bases, sacrifice and sacrifice flies—against total including outs batting and when, as runner, he is caught stealing or hit into a fielder's choice. Recent leaders are shown, along with estimates for past greats (base on incomplete total base information).

ARE HOME RUNS A LEADING ECONOMIC INDICATOR?

A chart for FORBES readers who couldn't care less about baseball.

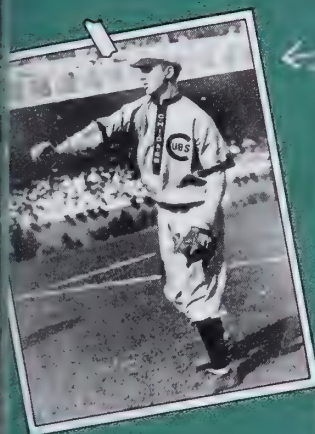


a number that ought to reflect a player's contribution to his particular team over time.

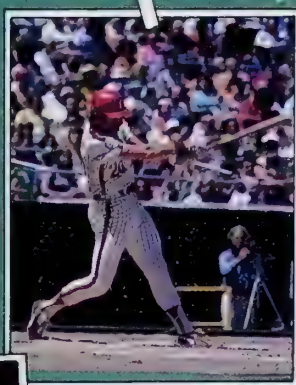
At this writing, the formula is still being tinkered with and revised, so that it might become an even more accurate predictor of performance. But James has gone far enough to conclude that baseball owners are, with a frequency beyond mere chance, just as dumb as their fans have always suspected. His researches show that over the past 25 years, owners have repeatedly traded away better "value" than they received. But the society has no standing even among

sportswriters, let alone owners. Bill James has no evidence whatever that anyone with real authority in organized ball is listening. It often goes like this in science. As James has said, "Those with no voices rattle their cups."

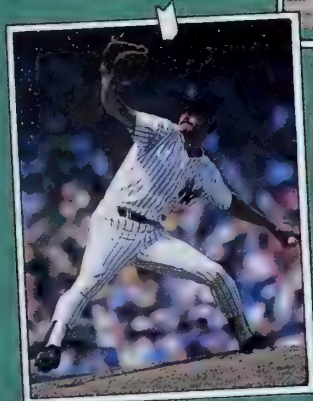
Like the Society for American Baseball Research, a FORBES task force has been experimenting with formulas and methods to render more reliable decisions. Having fed all of this season's batting and pitching performances to date into our computer, we can say definitively that the World Series will start on Oct. 11. Unless it rains. ■



← ED REULBACH



← MIKE SCHMIDT



← RON CUNDY

A BOOK ON THE HITTERS

PLAYER	BASES	OUTS	BOP
Mike Schmitt	3997	4001	.999
Rickey Henderson	1431	1497	.956
Joe Mauer	6213	6560	.941
Reggie Jackson	5395	5930	.910
Willie Stargell	5300	5948	.891
Fred Lynn	2527	2839	.890
Gene Tenace	3021	3424	.882
George Brett	3072	3533	.870
Reggie Smith	4583	5336	.859
Andre Thornton	2214	2579	.858
Carl Yastrzemski	7498	8819	.850
Jim Rice	2953	3486	.847
Greg Luzinski	3579	4246	.843
Ortiz Velez	1168	1391	.840
Eddie Murray	2112	2529	.837
Rod Canew	4950	5923	.836
Babe Ruth	—	—	1.428
Lou Gehrig	—	—	1.252
Jimmie Fox	—	—	1.170
Hank Greenberg	—	—	1.124

Recent

All time

Source: The Society for American Baseball Research

True greatness in a pitcher is not a few great seasons but career consistency and efficiency. In a Forbes-devised

formula, awarding points on less often studied stats, Ed Reulbach is better than you think.

Pitcher	Lifetime ERA	Strike outs per 9 innings	Hits per 9 innings	Strike outs Per walks	Best season %	Lifetime %	Quality points
Cundy	3.03	7.15	7.84	2.82	.893	.709	25
Mathewson	2.13	4.72	7.43	2.97	.806	.665	22
Reulbach	2.28	3.89	7.24	1.27	.810	.690	17
Lefty Dean	3.03	5.29	8.82	2.52	.811	.644	17
Young	2.63	3.44	8.68	2.31	.778	.620	10

Personal Affairs

Edited by William G. Flanagan

Living among contemplatives for a few days is one way to recharge your batteries. Or to examine why, perhaps, you need to recharge the batteries at all.

Get thee to a monastery



By Christine Miles

I have never found a companion so companionable as solitude.—Thoreau

IN THE PALE DAWN, it is the knelling of the chapel bells, the quiet Gregorian chanting, the lambs bleating from the hillsides that remind you when you awake that this isn't the usual vacation resort.

Days slide by, punctuated with long walks, reading, talking with other guests or your hosts (monks or nuns) and, if you want to, working at farming, crafts or cooking.

Boring? To many it is more like heaven. Thousands of people with no particularly strong religious feelings now flock to monasteries for a weekend, a week or even longer, in search of something they cannot get anywhere else: solitude.

More and more monasteries and convents welcome guests. There are no religious sells, no frills and, other than meals, no formal activities.

"More of the people we are seeing now are not ordinarily the kind who go on retreats," says Father Martin,

prior of the Mount Saviour Monastery in Pine City, near Elmira, N.Y. "We are seeing people who are so focused, by necessity, on their jobs. They are delighted to find out that a place exists where they can stand back and reflect, and gain perspective."

Anglicans, Trappists, Benedictines, Jesuits and even Buddhists have monasteries across the U.S. that are open to the public. Many are within easy reach of major cities (see p. 190). Among Benedictines alone, for example, over a hundred houses of men and women open their doors to guests.

The communities are unique and each has its own restrictions regarding guests. St. Joseph's Abbey, a Trappist monastery 60 miles outside Boston, takes only male guests, and all maintain silence as much as possible—as do the resident Trappists. Mount Saviour, a Benedictine monastery nestled in upstate New York, accepts both men and women and has housing where couples may stay together. There is no vow of silence (although meals with the monks are silent), and guests are welcome to help with chores on the sheep farm or in the kitchen or the guest houses.

Weston Priory in Weston, Vt. found fame with its recordings of religious music. The music, chanting and liturgy here are a strong draw. While many monasteries discourage groups, Weston welcomes them.

The contemplative atmosphere of many of the monasteries is powerfully enhanced by their architecture. Christ in the Desert monastery in

Abiquiu, N.M. is in the adobe tradition of the West. St. Mary's Convent near Peekskill, N.Y. resembles a rambling Victorian manor house. St. Joseph's is a magnificent structure built from old fieldstone in the manner of a 12th-century abbey. A huge gilded cross atop the chapel is the first sight a visitor gets of the monastery as he crests the hill. Inside, wood-paneling and high, stained-glass windows dominate the cavernous space.

Whatever the architectural style, accommodations in a monastery will generally contain only the bare essentials. A bed layered with quilts, a ta-



Tree-lined path at Mount Saviour Monastery in Pine City, near Elmira, N.Y.

No religious sells, no frills and, other than meals, no formal activities.

ble, a lamp and a place to hang clothes just about does it. While there are telephones at most abbeys, don't expect to use them much. Often there will be no one tending the office to let you make a call to your spouse or secretary. The monks will be at chores.

Food is usually simple and hearty. Lunch tends to be the heaviest meal of the day—monks and nuns rise around 4:30. Breakfast is usually do-it-yourself. Some of the monastery guest houses have fully stocked kitchens and someone who will prepare meals for you.

The contemplative's day is structured around prayer and reading. There are often seven or eight services daily; attendance is optional. After your own days of solitary relaxation, though, the twilight services at the Christian monasteries should not be missed. At Mount Saviour, monks in their black robes file quietly through the candlelit chapel, silhouetted in the fading light. After a silence, one brother begins to strum a harp and leads the others in a haunting even-song. The brothers will be abed by 10:00. Most likely, so will you.

Despite the atmosphere, don't ex-



Brother at Mount Saviour and guest
Don't expect miracles.

Sanctuaries

Depending on your location and religious preference, the two organizations below can give you names and addresses of monasteries and convents in your area. Most public libraries carry *The Catholic Directory*, a manual published by R.J. Kenedy & Sons. Your local church may also be a valuable resource, as will the monasteries listed here.

Association of
Contemplative Sisters
3176 Fairmount Blvd.
Cleveland Heights, Ohio 44118
(216-321-6568)

AIM
c/o Sister Pascaline Coff
Osage Monastery
Route 1 Box 384C
Sand Springs, Okla. 74063
(918-245-2734)

Monasteries

Weston Priory (Benedictine)
Weston, Vt. 05161
(802-824-5409)

St. Joseph's Abbey (Trappist)
Spencer, Mass. 01562
(617-885-3010)

Mount Saviour Monastery
(Benedictine)
Pine City, N.Y. 14871
(607-734-1688)

Dai Bosatsu Zendo (Buddhist)
Beecher Lake
Star Route
Livingston, N.Y. 12758
(914-439-4566)

Benet Hill Priory
(Benedictine women)
2555 North Chelton Road
Colorado Springs, Colo. 80909
(303-633-0655)

Corpus Christi Abbey
(Benedictine)
Star Route
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Sandia, Tex. 78383
(512-547-3257)

Immaculate Heart Hermitage
(Benedictine)
Big Sur, Calif. 93920
(408-667-2456)

St. Mary's Convent
(Anglican women)
John Street
Peekskill, N.Y. 10566
(914-736-0050)

pect miracles if you are at a crossroads in your personal or professional life. People who seek some kind of revelation or permanent solution to a problem, Father Martin says, will be disappointed: "More happens here by accident than design."

Some things to keep in mind:

- Don't take work along. The point is to leave the ordinary things of this world behind and make the monastery a place apart from everyday life.

- Do bring enough books or a camera or some such to make yourself feel comfortable with the thought of being truly "alone" for a few days. You probably won't go near them after the first day or two.

- Take cash or your checkbook. Monasteries and convents charge no set fee per night. But all donations are in cash—no credit cards. (Although most won't even give you an estimate of their cost, consider that it must

cost them \$20 a day to house and feed you, and take it from there. Generous contributions are accepted, but they are neither expected nor solicited.)

- Don't expect nightlife, it need hardly be said. You are free to come and go as you please, and wine is acceptable at many communities. But moderation is expected in all things. Most of your fellow guests, in any case, will be asleep fairly early.

- Talk to the brothers or nuns when you can. You will probably find many of them interesting. At Mount Saviour, for example, one brother is a physician, one an architect, another a former insurance salesman, and yet another a former ballet dancer and set designer for a dance company.

One other thing. By all means take a notebook, a pad or even a tape recorder. You may be glad for a record of your thoughts and feelings there when you go back into the world. ■

The big lenders have new ways for you to borrow on your home equity. The terms look awfully good now, but a pink slip in the future could mean you'll be homeless.

A piece of the roof

By Janet Bamford

ADD UP ALL THE HOMES in America and you find enough untapped equity—borrowing power—to make any financial institution slaver. Dennis Hess, chief operating officer of Merrill Lynch's real estate subsidiary, estimates that there is some \$3 trillion lying fallow. That is double the amount of cash all consumers currently have borrowed in this country.

Small wonder then that banks, brokers and other financial institutions have found yet another new way for homeowners to tap the gold mine in their floorboards—without having to sell out, or go through elaborate and expensive refinancing. They are making it so easy to borrow that some doomsayers foresee foreclosures ahead should the economy suddenly

Personal Affairs

cloud over and interest rates soar.

Right now the sun is shining, and the temptation to borrow can be strong for some homeowners. The new wrinkle goes under various names: Merrill Lynch's Equity Access, Citibank's Equity Source Account or Crocker National's Equity-Line. Doubtless there will be other handles as more and more lenders guide their programs through regulatory hurdles. But the idea is the same: You can get a revolving line of credit on your home, which you can use at

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any time you please—or never at all. The line of credit can be as high as 80% of the appraised value of your home, minus the balance on any existing mortgage. This can be a little tricky. For example, if your house is worth \$200,000 and you still have a

knows of one customer who used his line of credit for a \$100,000 Rolls-Royce and of a woman who used it to charge her lunch at a delicatessen.

Most users are more traditional. Donald Herner, for example, a 40-year-old Manhattan corporate lawyer, bought his home in suburban Scarsdale five years ago for \$122,500. His original mortgage of \$92,000 has been paid down to only about \$88,000. But the home was recently appraised at \$335,000. A few weeks ago, Herner became one of the very first Citibank customers to close on its new home equity loan. He says he is going to use

tomor. He bought and remodeled a house in Malibu in 1972 for about \$1 million that is now valued at (remember, this is California) \$5 million. Under Merrill Lynch's Equity Access program he has set up a \$1.4 million line of credit that he is using, in part, to finance his new business, Phone In-Drive Thru Market, a home shopping enterprise for supermarket merchandise. "I've used Equity Access for everything from a \$12 purchase to expenses that ran into the hundreds of thousands of dollars," he boasts.

Beneficial Finance Co. has been offering these lines of credit since 1975 and has some \$300 million outstanding in such equity loans, but that is something of an exception. Most major banks and brokers are only now beginning to tap the market.

One reason is that, until recently, interest rates even on such secured loans were still too high to attract that many preferred borrowers. Another factor is the dizzying amount of legal maneuvering that has to be done in each state. Only recently, for example, were such loans permitted in New York. But the number of lenders is growing quickly (see table, p. 194).

While the advantages of these credit lines are obvious, there are some caveats you should also bear in mind:

- Remember that if you have trouble repaying the loan—if you lose your job, for example—you could wind up homeless. Even bankruptcy laws might not be able to prevent you from having to sell your home to repay the loan, even if it is only a portion of the value of the house.

Andrew Kahr—once a consultant to Merrill Lynch and now the chief executive officer of First Deposit Corp., a Parker Pen Co. financial products affiliate—says he has seen good credit risks turn into bad ones without much ado. "In cleaning up loan portfolios for other companies, I've been there charging off millions in credit card loans to people who are homeowners. I've sat there with the files and all of the data and here are people who probably have some good equity built up in their homes. They've run up \$2,000 worth of bills and now they're out of work and can't make the payments. These are ordinary credit cards and we don't have access to their homes, so we just write them off. What the devil is going to happen to these people when they've secured obligations with their homes?"

- Remember, too, the interest rate is almost always variable. Paying a rate of 12.5% sounds pretty good right now, when second mortgage and cred-



\$100,000 mortgage, your maximum line of credit is \$60,000 (80% of the total value of the house, minus the \$100,000 mortgage). It is not \$80,000 (which is 80% of the unmortgaged value of the house).

Since the line of credit is secured by real property, you pay attractive interest rates—as low as 1.5% over the prime rate. Unlike a standard second mortgage, you don't pay any interest until you actually spend the money that is made available to you.

What's more, it's a snap to access that line of credit, once it has been established. You can in some cases use a charge card, but most customers use a special checking account to write checks in amounts up to the entire credit line. Dennis Hess says he

some of it for home improvements.

"When I first started talking seriously to the contractor," says Herner, "I called the bank to see what I could do about getting some money. I have some securities that I'd rather not sell, and they told me about this new product." Herner got a \$110,000 line of revolving credit from the bank. He says: "I'll pay off most of what I borrow for this initial project in the next four or five years, but the nice thing is that I've got a line of credit just sitting there. I have three daughters who are going to college, and instead of having to go to the bank every time and say I need another loan, this is a good vehicle that will work like a line of revolving credit."

Ron Cameron is another happy cus-

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Personal Affairs

it card rates are way above that. But it wasn't so long ago that the prime rate was up to 16% or 17%. So locking in a lower rate now on a regular second mortgage might make sense down the road. Be wary, too, of the come-ons; an institution may offer an especially low interest rate to woo new customers, only to readjust it soon after you

principal through the life of the loan. Others, like Merrill Lynch and Citibank, require only that interest be paid regularly. That could be a big convenience, but it could also be a time bomb when it all comes due.

• Check the term of the loan. At least one lender has a four-year limit, others stretch it longer. Some plans, like Citibank's, convert into a standard 20-year mortgage after the first 5 years are up. As Leonard Druger, vice president in charge of credit policy for Citibank's metropolitan branch network, points out, "It might not be convenient for a borrower to suddenly repay the entire principal or refinance it at the end of 5 years if it comes due

value of the outstanding loan in an account. They are clearly going for the customer who has significant assets to invest. But it could come as a jolt to find out that your loan technically becomes callable if you sell some stock, or if the market value of your securities plunges. If the loan is called, you may be forced to refinance it on whatever terms are prevailing.

• State and federal regulations may limit what you can use the loans for. A brokerage firm, for example, is not supposed to lend you money that will be used to buy securities. Banks are not under that particular restriction. In California you can't use the loan to buy a one- to four-family home.

It's on the house

Here is a sample of the home-secured credit lines now being offered by some big lenders. But if you're in the market for a loan like this, don't overlook smaller or

local institutions. Even small banks, thrifts, brokers and finance companies are constantly coming out with their own versions, which can be quite competitive.

Institution	Maximum % equity lent	Interest rate	Minimum/Maximum credit lines	Term of loan	Fees	Minimum to access credit line	Where available
AmeriFirst Federal Savings & Loan	80%	14.75% (variable)	\$5,000/ \$75,000	open	\$285 plus \$20 annual fee	\$25	Fla
Beneficial Finance	75%	prime plus 4%	\$5,000/ \$50,000	15 yrs	1% of credit line (max \$400) additional fees vary	\$5,000	26 states
Citibank	75%	prime plus 1½ to 2½%	\$7,500/ no max	5 yrs	2% of credit line (min \$500)	\$500	Conn, NJ, NY
Chemical Bank	75%	prime plus 1½ to 2%	\$7,500/ \$100,000	15 yrs	\$200 plus additional closing costs	\$500	Conn, NJ, NY
Crocker National Bank	75%	prime plus 2%	\$3,500/ \$100,000	open	\$475 plus \$24 annual fee	\$300	Calif
Goldome Bank for Savings	70%*	3½% pts over 6-month Jumbo CD	\$7,500/ \$150,000	open	closing costs vary	none	NY
EF Hutton	75%	prime plus 2%	\$20,000(Calif) \$25,000(Conn)	4 yrs	2½% of credit line	none	Calif, Conn
Merrill Lynch	70%	prime plus 2%	\$10,000/ no max	10 yrs	2% of credit line \$35 annual fee	none	9 states
Shearson/American Express	75%	prime plus 1½%	\$40,000/ no max	5 yrs	2½% of credit line	\$10,000	14 states

*75% if first mortgage is held by Goldome

have the credit line.

• As with any mortgage, there are upfront costs. Some of these may be tax deductible. But those charges can add up. Some lenders charge about 2% of the credit line as a mortgage origination fee. And there may be other standard costs when securing a new mortgage, like appraisal and title search charges, survey fees and mortgage taxes, if your state has such a beast. Don't forget to include all these costs when calculating the true price of an equity loan.

• Repayment terms vary, so shop carefully. Some, like Chemical Bank, require that you pay back interest and

in one balloon payment. Whatever part of the principal is still outstanding at the end of 5 years, we amortize over a 20-year period."

• Check the fine print, in every case, even more carefully than you normally would. It might even be worthwhile to run the whole thing past your lawyer. Many arrangements permit the lenders to call the loan after a certain amount of time has passed, or call the loan unless you keep a certain amount in securities or cash in an account with them. Shearson/American Express, for example, requires borrowers to keep cash or securities equal to 35% to 50% of the

And, in Texas, regulations effectively prohibit anything that even looks like a second mortgage.

Lenders are understandably touchy about whether they're giving consumers too much credit. "Who shouldn't you sell a dinner knife to?" protests Merrill's Hess. "If somebody decides to go crazy, throw everything they have away, liquidate their assets and, if you will pardon the expression, put themselves right in the toilet, they can do it in a lot of ways."

But exactly. The point is to avoid falling into one thinking you were just out for a walk.

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Faces Behind The Figures

Edited by John R. Dorfman

What explosion?

If you were measuring the nation's vehicle supply, you wouldn't give equal weight to roller skates and locomotives. But that, in effect, is what the Federal Reserve Board does in measuring the money supply, says William Barnett, an economist at the University of Texas (Austin).

The Fed has realized, Barnett says, that M1 excludes too many forms of money, such as the new money market accounts at banks. But the higher aggregates like M2 and M3, he says, suffer greatly from the "skates and locomotives" problem. Some of their components are much more liquid than others.

How can the Fed control money if it can't adequately define it? You have heard the question before. Barnett thinks he has the answer: Divisia aggregates, named after the late French statistician François Divisia, who published a famous paper on the subject in 1925. In Barnett's Divisia formula, the changes in the supply of various forms of money are weighted according to how liquid each form is. Checking accounts, for example, get more weight than certificates of deposit. To get his weighting factors, Barnett looks at the opportunity cost of holding such low-yield assets as checking accounts and passbook savings accounts. When you give up yield, his model figures, you are probably getting liquidity in exchange.

Crunching Divisia numbers leads Barnett to two conclusions. One is that the Fed was much tighter than it intended to be during the period from late 1979 through mid-1982. For example, in 1982, M2, measured the usual way, was up 9.4%. But Divisia M2 was up only 7.8%.

The other conclusion is that people have been panicking unnecessarily about money supply growth this year. The new bank money funds and the super NOW accounts have been sucking in money that was formerly held in other forms, and other types of asset shuffling also have occurred. But the Divisia aggregates are rising at a rate not much different from last year's, Barnett says. Thus, the "apparent explosion" can be viewed as a



Economist William Barnett

A new set of "M" numbers?

statistical blip.

Is anybody listening? Yes, says Barnett, who was a research economist for the Fed for eight years until 1981. Some Fed members, including Governor Henry Wallich, regularly peruse his numbers. Such economists as Paul Samuelson, James Tobin and Milton Friedman also receive the Divisia numbers monthly. It's only a matter of time, he figures, before the Fed will go to Divisia aggregates as its official guide. "They've run out of other alternatives," says Barnett, "and are looking at this very seriously."—J.R.D.

States' rights?

As the sovereign state of South Carolina sees it, there is a provision written into the Tax Equity & Fiscal Responsibility Act (TEFRA) of 1982 that amounts to an unconstitutional effort by Washington to abrogate what remains of state powers. TEFRA mandates that bonds sold by states after July 1, 1983 be issued in registered (not bearer) form. If a state breaks this rule, the interest on the bonds can be taxed by the IRS.

That requirement galls Grady L. Patterson Jr., 59, South Carolina's



South Carolina Treasurer Grady L. Patterson Jr.

Can one level of government tax another?

state treasurer, who has defended the federal tax exemption of interest on state and local debt obligations from several attacks in recent years. Says he: "I feel very strongly about this issue. It's basically whether one level of government has the authority to tax another level. The TEFRA provision represents an effort to nibble away at the constitutional base of the nation and to twist states' arms."

The TEFRA provision offends Patterson not only on principle but also in terms of cold cash. Last November, for example, South Carolina sold a \$115 million bond issue. Patterson estimates that if the registration requirement had been in force then, costs would have been at least 25 basis points higher and taxpayers would have wound up paying at least an additional \$2.8 million over the 15-year life of the bonds.

Patterson, who has been the treasurer of South Carolina since 1966, has filed suit against U.S. Treasury Secretary Donald Regan, challenging the constitutionality of the TEFRA provision and seeking to enjoin him from enforcing it. The Supreme Court plans to hear arguments on Oct. 5 on whether it should accept original jurisdiction. Some 24 states, led by Texas, have joined with South Carolina in opposing the new bond registration requirements.—Martin Love

Life after Burger King

At 52, Norman Brinker is considerably older than the people he plays polo with. Then again, Brinker has been doing things a little differently all of his life.

Until last spring Brinker was president of Pillsbury's restaurant group, as well as temporary chairman and CEO of the Burger King division and the Steak & Ale division, which includes Bennigan's restaurants. He quit in June to become CEO of Chili's Inc., a 25-unit restaurant chain based in Dallas. Chili's sales this year will be about \$42 million—mere garnish to the Pillsbury restaurant businesses Brinker left behind, which have combined sales of about \$1.5 billion, almost 42% of Pillsbury's total sales last year of \$3.6 billion.

Whatever possessed Brinker to walk away from a \$700,000 annual compensation package to take a major equity position in Chili's? He wanted, he says, to get back to entrepreneurship, which was the path that led him to Pillsbury in the first place. Brinker had started the Steak & Ale chain in 1966, sold it to Pillsbury in 1976 and personally realized \$33 million on the

deal. Chili's profit margins are "already up there with the industry leaders," he says. "I believe my experience can help turn Chili's into one of the faster-growing chains in the country." Unlike McDonald's and Burger King, Chili's is aiming for the more expensive end of the hamburger market. Burgers are 8 ounces (twice the size of a "quarter pounder") and served with a variety of toppings. The average meal at Chili's costs \$5.50, vs. \$3 at Burger King.

As for leaving Pillsbury, Brinker says, "I would only leave as a winner. I felt I could leave the restaurant group because both Burger King's and Steak & Ale's sales were at an alltime high." For some of his good fortune at Burger King, Brinker can, ironically, thank McDonald's, which sued to block a comparative advertising pro-

"I was lucky; I picked out some good ones," he recalls. "Word got around that I was good at it, and before you knew it, people were calling me up for advice."

The calls are still coming—more than 200 a day, by Karelitz' estimate. Now 49 and the top broker at Shearson/American Express, he works with his 26-year-old son, Neal, one of the firm's youngest vice presidents. As a team they expect to produce over \$2 million in gross commissions for Shearson this year. Around the Shearson office on State Street in Boston, they are known as "Shearson East" because their offices are set apart from those of the other 50 brokers. "We have three secretaries going strong all day," says Karelitz. "By the end of the day they're ready to collapse."



Chili's Inc. CEO Norman Brinker
Another shot at the goal.

gram. The suit, as it turned out, was the best advertising that Brinker could have had.

Brinker seems to get the same sort of charge out of building a restaurant chain that he does out of his favorite sport. Despite two serious accidents, he continues to play polo and is ranked among the top 8% of players in the U.S. "I enjoy the risk in polo playing in the same way I enjoy the risk in business," he says. "If you took the risk away, I would have absolutely no fun."—Stanley W. Angrist

"Shearson East"

As a preppie at fashionable Milton (Mass.) Academy in the Fifties, Stephen Karelitz persuaded his father to let him start his own stock portfolio.

To unwind after his own hard day, Karelitz usually heads for his box at Wonderland Park, a greyhound track just outside Boston, perhaps to watch one of his 100 racing greyhounds. "When my dogs run I usually won't bet on them," he says. "I get more of a thrill out of just watching them. I play with them. I rub their tummies, I rub their heads, they lick my face. After a tough day's work in the stock market, it's a great therapy."

It's profitable, too. Karelitz claims he has over \$500,000 invested in his dogs, and in a good year, he says, they can make him \$250,000. That's after all the expenses of his "greyhound corporation," including salaries for himself as president, his wife, Jane, who keeps the books, and three trainers for the dogs.



Shearson broker Stephen Karelitz

Two hundred calls a day, evenings at Wonderland.

Karelitz also has investments in real estate (rental properties in New York City and in Omaha) and in his own Oklahoma oil and gas exploration company. "The real estate is bigger than the dogs but smaller than the oil," he says. "And all of them are smaller than the stocks."

Hot tips? Karelitz, who made a killing on Bally a few years back, recommends Signal Cos., PPG Industries and Delmed, a medical disposable products maker traded on the American. Oh, yes—he also likes his own Derailer Dee next time out at Wonderland, to win.—Kevin McManus

Visibility 101

"I know lots of people who went to work for the government and found they were bored. I never had that experience," says Elizabeth Bailey, former vice chairman of the Civil Aeronautics Board. "In fact, I never had as much fun professionally as I did in deregulating the airlines. Every time I step onto a People Express flight I get to reap some of the benefits of my work in Washington."

Bailey, 44, who was appointed by President Carter and promoted to CAB vice chairman by President Reagan, left the CAB in May of this year and now has become the first woman appointed to head one of the country's top-rated business schools. She has just become dean of the Graduate School of Industrial Administration at Carnegie-Mellon University in Pittsburgh. Her first task there—"I

don't relish this chore"—will be to raise \$15 million. The school needs money, she says, to create new courses, especially on "how to manage the introduction of automation into the work place."

The new dean wants to encourage students to gain "real world" experience, including work with corporate mentors. "I have had mentors during my entire professional life," Bailey says. "I want our students to find out how an organization really works—not how the employees' handbook says it works."



Dean Elizabeth Bailey of Carnegie-Mellon's GSIA

To go far in business, be visible, be receptive—and practice!

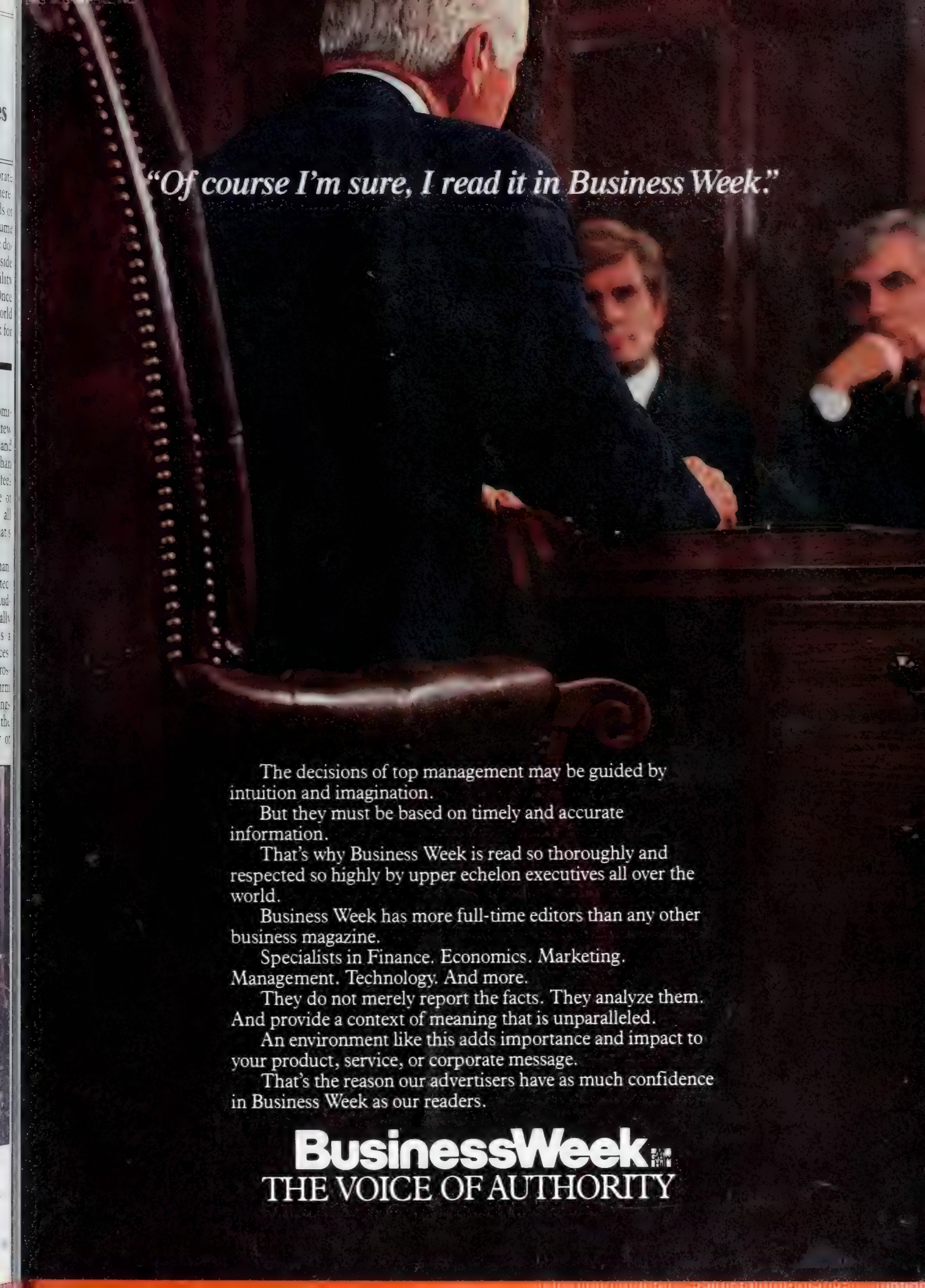
Faces Behind the Figures

For people already in a corporate setting, or for students headed there, Bailey has some hardheaded words of advice: "Never lean back and assume that people recognize that you are doing a good job. Be receptive to outside job offers and try to have visibility outside your own organization. Once you understand how the real world works, you can then make it work for you." Obviously.—Stanley Angrist

Free at last

The glass and steel boxes that dominated the urban skyline the last few decades are clearly out of fashion, and there may be no one happier than Chicago architect Dirk Lohan. "I feel a sense of liberation. It's a time of probing, of experimenting with all forms of modern architecture that's very exciting," he says.

Ironically, this means that Lohan, 45, no longer lives under the architectural shadow of his grandfather, Ludwig Mies van der Rohe, who virtually invented the glass box. Lohan is a principal in FCL Associates, successor to his grandfather's firm, and prospering in today's freedom. The firm marched up to 170th in total billings this year, from 412th last year, the greatest leap forward in a survey of



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Faces Behind the Figures

the 500 largest design firms.

But it may be a little harder today for an architect to insist on his vision of a building's design. "Architects still make ego statements with their

The German-born Lohan formed FCL with two of his grandfather's associates after van der Rohe died in 1969. It now has a 100-member staff, 75 of them architects, and bills about \$12 million yearly. He lives in one of his grandfather's glass boxes on Lake Michigan, with his wife, Diane Legge Lohan, 33, a partner in architects Skidmore, Owings & Merrill.

Part of the challenge, Lohan says, is to design a building that will help lure executives with choices. TRW's new headquarters, X-shaped wings de-

being kept as a corporate guest house.

Such amenity is essential, Lohan says. For otherwise, he points out, "If you had a choice between San Francisco and Cleveland, where would you go?"—Jill Bettner

Sticky roll on

"To maximize your protection," reads the letter to New York home policyholders of Geico Corp., "we require that you insure for 100% of what it would cost to rebuild your home today." Renewal policies, the letter goes on, will be automatically issued with the appropriate increase in coverage—and premium. It is only near the end of the letter that Geico adds, "If you do not accept the coverage adjustment as stated, please let us know at your earliest convenience."

Note that word "require." Isn't that a pretty high-handed way for a company to treat its customers? After some back and forth, a slightly flustered Merrill (Don) Knight, Geico's vice president of fire and allied lines, admits there is no such requirement. Geico's letter, it turns out, is only another example of the "roll on" tactic—legal but not universally admired in the insurance industry—by which new terms, coverage and premiums go into effect automatically unless customers object. The word "require" notwithstanding, policyholders can refuse the extra coverage, which would cost a typical New York policyholder who already has 80% coverage an additional \$50 to \$70 a year in premiums.

How many customers have object-



FCL Associates' Dirk Lohan
Out of Grandfather's shadow.

buildings, but there's more pressure now to bring out the clients' egos," Lohan says.

His recent big jobs include the new Frito-Lay (potato chips) headquarters in Dallas; McDonald's (hamburgers) headquarters in suburban Chicago, where nobody, not even the chairman, has a completely enclosed office; and TRW's headquarters outside Cleveland. All are in the latest fashion: low-rise campuslike complexes in woodsy settings. Among the newer ideas: an effort to deal with the window-equals-status problem. In the TRW headquarters, executive offices are in the center of the building, and the secretaries sit near the windows. That way they all get some view—the executives can just look past the secretaries and through the windows. Corner offices are even more status, of course. "If a building could be designed so that everybody had a little corner office, that would be terrific," he sighs, "but it can't be done." Still, his firm designed one as-yet-unbuilt office building, in Chicago, with both sides to double the number of corner offices.

signed around a four-story atrium, includes underground parking for all 700 employees. The estate's existing mansion with its formal gardens is



Geico's Merrill (Don) Knight
Never mind the fine print. Read the last part of the letter.

ed so far? Thousands have, says Knight, but many thousands more have gone along—about 75% of Geico's 200,000 New York homeowner policyholders. Why? Says Knight, 53: "Most homes are severely underinsured. Market value is low compared with replacement value." Most people, he points out, have no idea what full replacement would cost. "Many homeowners who think they have 80% coverage," Knight says, "have at least one-third less than that, after an average of 10% inflation a year."

Maybe so. But shouldn't consumers make up their own minds about what to do about that, without being rolled over by a roll on?—Jayne A. Pearl

Flogging a fad

When a new fad hits, it hits big. Consider the Wacky WallWalker, a little rubber octopuslike creature with sticky tentacles that walks down walls in a disconcertingly marine-life-like manner. Ken Hakuta, a 33-year-old Harvard M.B.A. who works out of his Washington, D.C. home, has sold over 25 million WallWalkers imported from Japan in the past eight months. They retail from \$1.49 to \$1.99, and Hakuta gets from 50 cents to 60 cents on each one.

But fads, by definition, die fast. WallWalker ripoffs are already up, severely cutting into Hakuta's margins. So far, he says, he has not had the time or resources to take infringers on his trademark to court. "I have one factory making WallWalkers," he says. "But I heard recently that there are eight factories in Taiwan making

them, too."

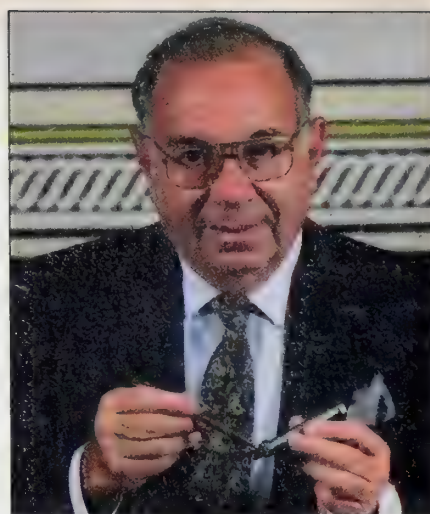
What to do? One response is *The Wacky WallWalker Holiday Cartoon Special*, which airs in mid-December on NBC. In partnership with the network Hakuta also hopes to license WallWalker characters created for the cartoon—such as Stickum, Crazylegs and Bouncing Baby Boo—for T shirts, pencils, lunch boxes and possibly even video games. "I want to create an institution," Hakuta says, hopefully. "This is potentially a billion-dollar retail industry."

Brave words. But what if, despite all these efforts, the WallWalker goes the way of the Mood Ring and the Pet Rock instead of becoming the next Smurf? Hakuta, whose 6-year-old Tradex Corp. dealt in such items as ironing board covers, karate uniforms and fish meal before he discovered the WallWalker, gives an easy-come-easy-go shrug. But he quickly adds, "I've got an antigravity-type toy in the works. It's going to be fabulous. I know it is."—John Heins

Buying trouble

Back in 1981 David Wingate, CEO of the successful little aerospace fastener firm Hi-Shear Industries Inc. (1983 sales \$70 million), bought a 30% interest in Raymark Corp. (1982 sales \$260 million).

It was a good fit, Wingate figured. Raymark, which used to be called Raybestos-Manhattan, makes rivets and brake linings and pads, while aerospace fasteners account for approximately two-thirds of Hi-Shear's sales. Aerospace has been in the dol-



Hi-Shear Industries' David Wingate
The high cost of asbestos.

drums along with air travel. So it's conceivable that Raymark's markets might recover faster than Hi-Shear's.

But overhanging Raymark's future are some 13,000 asbestos liabilities lawsuits. The cost of carrying them in 1982 was almost \$11 million in legal expenses, workers' compensation payments, insurance premiums, verdicts and settlements. This year the company may well have to shell out that much again. Result: Raymark has been in the red for two of the last three years, with losses so heavy recently that they have spilled onto Hi-Shear's P&L sheet. Without its share of Raymark, Hi-Shear would have had a meager profit of \$2.3 million in its fiscal year ending in May, but in fact it ended up with a deficit of \$9.4 million.

If pressed, Wingate concedes that at the time of purchase, "We really did not think much of it [the asbestos exposure], or as much as we should have." But he adds: "Managing potentially dangerous materials is part of the cost of running a business. The cost of asbestos exposure can be compared to rent or telephone costs." Besides, Wingate expects remedial legislation to take asbestos companies at least partially off the hook. Raymark is part of a coalition of 13 companies—none of them in Chapter 11—pressing the case for such legislation to Congress. All in all, says Wingate, the Raymark investment "will be vindicated much sooner than everybody thinks."

Maybe. But it looks as if Wingate, back in 1980 (when Hi-Shear had a mere \$4.1 million in long-term debt), was a man with money burning a hole in his pocket. He was intent on buying something. In retrospect, what he bought appears to be a parcel of headaches.—Jinny St. Goar



Wacky WallWalker's Ken Hakuta
"I want to create an institution."

Mary DeSapio
First Vice President
Lehman Brothers Kuhn Loeb
May 1981

“For possibly the first time in two generations, one can make a sound, long-term case for investing in rail equities.”

Wall Street's enthusiasm for railroad equities remains unabated since that statement was made. Despite an uncooperative economy, railroad equities have tripled in market value. Obviously, America's freight railroads are a growth industry. Last year, trains handled almost twice as much traffic as their nearest competitors. They moved it efficiently, inexpensively, reliably. This growing efficiency is the result of a massive program of capital improvement. Over the last three years, freight railroads spent an average \$3.1 billion a year on new equipment, improved track and expanding technology. America's freight railroads are investing for today and tomorrow—and increasing their share of the transportation market along the way. The railroad renaissance is welcome news—because railroads keep America running. For more information, write: Renaissance, Dept. 121, Association of American Railroads, 1920 L Street, N.W., Washington, D.C. 20036.

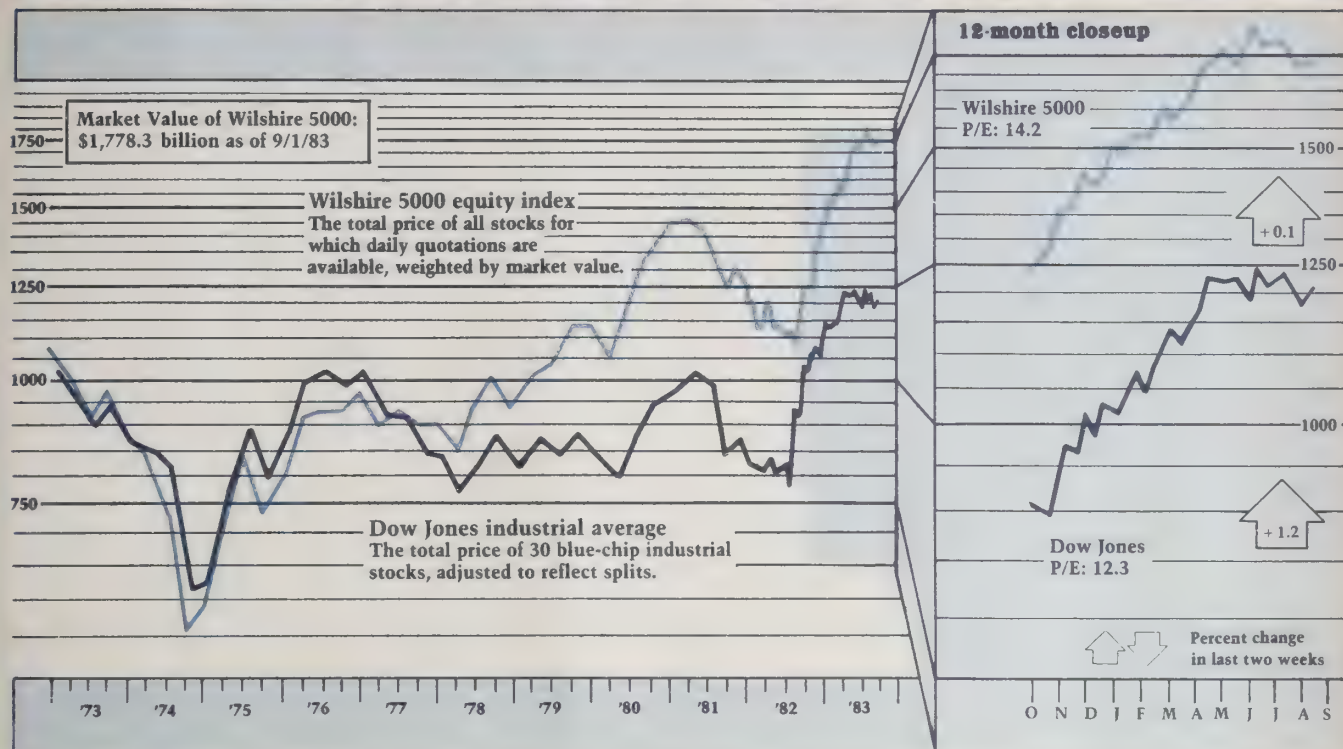


ASSOCIATION
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FREIGHT RAILROADS ARE ON THE MOVE.

The Forbes/Wilshire 5000 Review



Quality counts. For most of August trading volume was anemic, but at the end of the month the market began to pop up. In one day of heavy trading the Dow gained more than 20 points. Nevertheless, as the summer wound to a close, investors took few chances with this more than 12-month-old bull market. Bargain-hunting helped to take some of the pressure off the technology issues, and some cautious buying pushed the Dow up 1.2% for two weeks and 2% for the four-week period.

But the NYSE and the broadly based Wilshire index were up only 0.1% for the two weeks and underperformed the Dow over the four-week stretch. The real weakness

was in the secondary issues. The Amex slipped 0.3% over two weeks and 0.2% over four weeks. And NASDAQ stocks declined 1.7% in both the two-week and four-week periods. However, on a 52-week basis the Amex and NASDAQ indexes are running neck and neck for the lead, with gains of just under 65%. On the same basis, the Dow has underperformed the NYSE: 32.7% vs. 37.5%.

High-P/E stocks lost 1.7% over four weeks while low-multiple issues managed to eke out slight gains. Nevertheless, the P/E for the average issue rose. The multiples on both the Wilshire index and the Dow are higher than they were a month ago.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ¹	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	1.7	1.9	2.0	1.6	-0.2	-1.7
in last 52 weeks	41.2	35.4	32.7	37.5	63.4	64.1

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	1.8	-2.9	-1.5	0.4	-1.7	0.2	1.0	-0.3	-0.4	0.7	0.1	-2.6
in last 52 weeks	42.5	137.3	121.6	51.8	89.1	126.9	45.1	125.8	141.5	50.6	55.4	129.1

¹Based on sales.

²A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

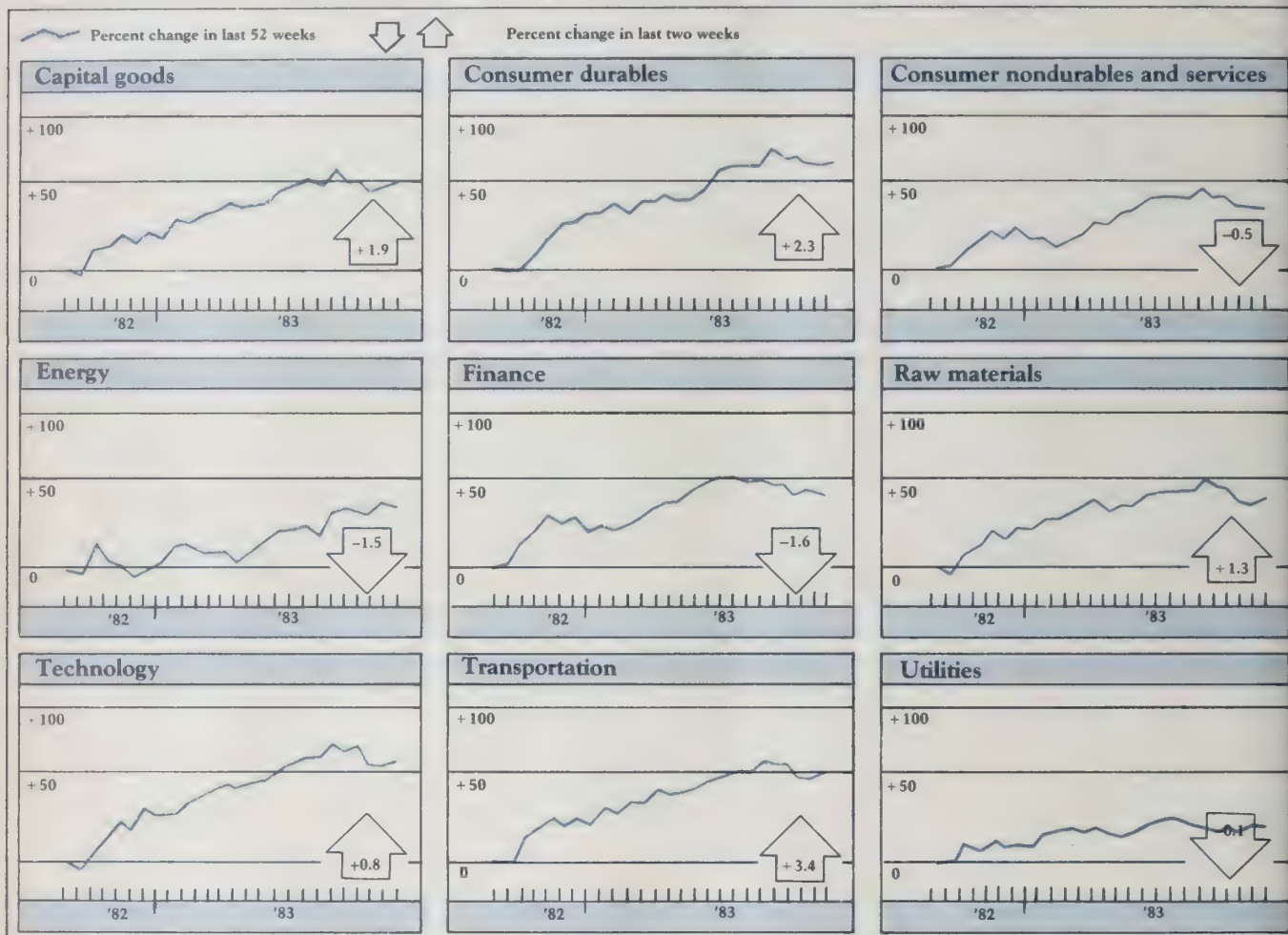
³A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 9/1/83. Prepared by Wilshire Associates, Santa Monica, Calif.

The oils cool off. After making it through the summer relatively unscathed and posting a 16% gain from the beginning of June until the middle of August, the oils took some of the hardest blows. Energy stocks fell 1.5% in two weeks. And on a 52-week basis the energy stocks dropped behind raw materials. Now the only sectors that have smaller annual gains are consumer nondurables and utili-

ties. Both of these sectors also registered two-week fractional losses. However, the weakest group during the last ten trading days was finance, off 1.6%.

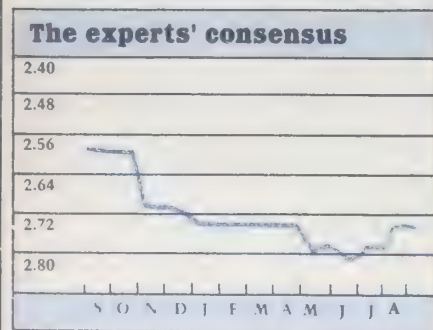
Transportation, up 3.4%, and consumer durables, up 2.3%, put in the best performance. The auto industry is still not cruising at high speed, but prospects are a lot better than they appeared a year ago.



What The Analysts Think

It pays to study finance. Despite the fact that the finance sector was the worst-performing group during the last two weeks, the experts think that these stocks are

now slightly more attractive. On the other hand, the seers are a bit more pessimistic about other groups. In the last two weeks, they downgraded five of the nine sectors.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	2.47	1	1
2	Transportation	2.67	2	2
3	Raw materials	2.70	3	3
4	Energy	2.75	4	4
5	Finance	2.75	5	6
6	Capital goods	2.79	6	5
7	Technology	2.81	7	8
8	Consumer nondurables	2.83	8	8
9	Consumer durables	2.98	9	9

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite

rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 9/1/83. Prepared by Wilshire Associates, Santa Monica, Calif.

**First
We Changed
Our Company.
Now
We've Changed
Our Name.**

The change in our name from Foremost-McKesson is not simply cosmetic. Over the last decade we have divested ourselves of some \$225 million of assets and reinvested \$650 million in new growth businesses. Last year, we sold Foremost Dairies.

As a result, we have become McKesson Corp., a \$4 billion leader in the field of Value-Added Distribution. Today, all three of our largest businesses—McKesson Drug, McKesson Wine & Spirits and McKesson Chemical—are the leading distributors in their industries. Together, they account for nearly 85% of our revenues, the balance coming from our proprietary products.

Computer technology is the driving force behind our emergence as the nation's leading distrib-

utor. This year alone, we will spend \$65 million to operate and expand our computer network.

Daily, 3,000 vehicles fan out across the country from 200 McKesson distribution centers. They move nearly \$15 million worth of merchandise daily. Table wine to toothpaste. Chlorine to clock radios. Drugs to disposable diapers.

Hardly anyone anywhere in America can go very long without using a product that's been marketed by our 1,900 salespeople, passed through one of our distribution centers, or tracked by our nationwide computer network.

As America emerges from the recession, we continue to work toward our basic financial objective: A 15% compound growth rate in earnings from continuing operations in the 1981-1985 period. Our financial condition is healthier than ever and we have

ample resources to finance our growth. In the last three years the market value of our shares has more than doubled to nearly \$1 billion.

It's coincidence that we're changing our name to McKesson at the same time we're observing the founding of the company 150 years ago by John McKesson. But it does mark the start of a new and exciting future under a name that is both new and 150 years old.

For more information about us, write:
McKesson Corp
Corporate Relations Department
Box F
One Post Street
San Francisco, CA 94104

NYSE Ticker Symbol: MCK

McKesson

McKesson

Masters of Value-Added Distribution

The average stock is up 62% since Aug. 12, 1982. But lots of issues can't match that performance. Here are the laggards.

Bull market bums

By Diana L. Hoadley

AFTER A BRILLIANT ten months, the stock market struggled through the summer and now may be on the mend. The broad-based Wilshire index is up 62% since last August. The Dow industrials made 52.5% gains, and the performances of Amex and NASDAQ issues were even more spectacular.

But averages are averages. Not all shareholders who rode the market during the last 12 months wound up rich. Yes, Virginia, it was possible to lose money on Wall Street, even during 1983.

To get a feel for the losers, we screened the 5,000-stock Wilshire database for issues that gained 10% or less since the market began climbing out of the high 700s. We eliminated some of the more volatile low-priced and smaller firms by requiring a recent market price of at least \$5 and sales of at least \$50 million. We also eliminated companies without at least 50 cents in per-share earnings for the latest 12 months.

What is left is a list of 50 stocks that failed resoundingly. When you consider that investors in today's market doubled and even tripled the prices of companies such as American Motors, International Harvester, Beker Industries and Eastern Air Lines—even though these firms are still losing millions of dollars—the performance of the stocks in our table is sad indeed.

In a bull market, of course, even failure has its rewards. Note that the

six stocks at the bottom of our losers list actually posted gains of up to 10%. Not too long ago, many a money manager would have earned a raise to end the year with an average return that good.

Each firm on the table has its own hard luck story. Still, there is a heavy representation of banks and utilities. Overextension and overexpansion also hurt companies like Reeves

Even the bad guys were good

One measure of the market's recent strength is the fact that over the past year no industry group dropped in price. Here are the ten worst performers.

Group	% change
Recreation—movies, sports	10.2%
Electric utilities	16.9
Food—confectioners	29.1
Food—packaged goods	29.4
Tobacco	30.5
Communications	31.8
Cosmetics & personal items	35.9
Drugs	41.1
Precision instruments	42.1
Heavy machinery	47.2

Source: Media General

Communications and Long Island Lighting, which investors once loved.

In the depressed pre-bull market, other companies were flush with cash and went hunting for bargains. But some of their "buys" required heavy borrowing and high interest charges. Baldwin-United's acquisition of MGIC, for example, contributed to a \$1 billion pile-up of short-term debt.

Nutri/System is also high on our

list. In the early 1980s this young company scored big with its weight-loss control centers. From 1972 to 1982 Nutri/System managed profit growth of 95% annually. Then came the acquisitions—200 Gloria Marshall fitness centers, an executive search firm and expansion into natural cosmetics.

All this added inches to what once was a chic corporate profile. Earnings have declined about 30% and debt has risen from zero to \$8 million for the year ended July 31, 1983. Now, trimming the fat will be painful. Steven Handley of L.F. Rothschild sees profits of \$2.50 a share in fiscal 1984, "provided the effects of diversification can be neutralized."

Other companies, of course, stumbled for the opposite reason. They didn't diversify quickly enough. Wells-Gardner, for example, specializes in video monitors for coin-operated video games and computer terminals. It enjoyed the giddy rise in the popularity of video games, but the firm now faces a decline in excess of 50% on orders for the year ended Aug. 31, 1983. A major customer (Bally/Midway) scaled back orders, and a former customer (Atari) now supplies its own monitors.

The screen that reads "game over" for much of the coin-operated video market puts another company on our list. Bally Manufacturing, the parent of Bally/Midway and Bally Park Place (83% ownership) has suffered an 86% decline in profit for the six months ended June 30, 1983, versus the comparable period for 1982. Meanwhile Bally is enjoying the game at Atlantic City. Slot-machine revenues are increasing at above-average rates. The future? Bally Park Place's prospects should continue to improve as Atlantic City's popularity increases, and the company should help its video game sales with the recent acquisition of Sega Enterprises, a leader in laser disk technology.

Currency losses also added several companies to our roster of bad performers. With the dollar hitting new highs and currencies like the French franc, Italian lira and Mexican peso hitting new lows, firms as diverse as Kodak, Johnson & Johnson and PepsiCo have been hit by shrinking profit margins.

What venturesome investors might find attractive about our hard-luck

companies, however, is the fact that most of them have comeback potential. Many, such as Wells-Gardner, Hauserman, Long Island Lighting and Piccadilly Cafeterias, are selling close to their 52-week lows. A few, includ-

ing American Biltrite, Enterra and Tesoro Petroleum, are selling below book value.

With so many other issues trading on the basis of lofty earnings estimates two and three years out, these

losers may be among the more reasonably priced stocks around. Everyone warns speculators that what goes up must come down. But sometimes people forget that what went down may be even more likely to go up. ■

Pulling up the rear

These 50 companies are among the poorest performers in the current bull market. But even their results are not bad by historical standards. Almost half managed to come through the period with gains rather than losses.

Where traded	Company	Business	Price		52-week range	EPS latest 12 mos	P/E	Yield	Book value
			% change since 8/12/82	recent					
N	Baldwin-United	insurance	-71%	7	50 $\frac{3}{8}$ - 5 $\frac{1}{2}$	\$2.24	3.1	0.0%	\$20.57
A	Wells-Gardner Elec	electronics	-47	6 $\frac{1}{4}$	12 $\frac{7}{8}$ - 6 $\frac{1}{4}$	1.22	5.1	8.0	4.72
O	Affiliated Bk Cp Wyo	banking	-24	29	38 -23	3.70	7.8	5.4	35.82
O	First Bancshs La	banking	-24	20 $\frac{1}{4}$	20 $\frac{3}{4}$ -13 $\frac{1}{4}$	2.43	8.3	2.0	28.84
O	Reeves Comms	entertainment	-23	13	28 $\frac{3}{8}$ -12	0.62	21.0	0.0	12.46
O	Tony Lama	apparel	-21	16 $\frac{3}{8}$	25 $\frac{1}{4}$ -12 $\frac{3}{8}$	1.50	11.1	4.8	16.06
N	Enterra	energy	-19	18 $\frac{1}{2}$	27 -14 $\frac{7}{8}$	1.41	13.1	4.5	20.25
N	Bally Mfg	hotel/gaming	-15	20 $\frac{3}{8}$	31 $\frac{7}{8}$ -19 $\frac{3}{8}$	1.65	12.5	1.0	18.67
N	Nutri/System	weight-loss centers	-11	17 $\frac{3}{8}$	48 $\frac{1}{8}$ -16 $\frac{3}{8}$	1.67	10.4	1.8	3.91
O	Hauserman	furniture	-8	11 $\frac{1}{4}$	19 -11 $\frac{1}{2}$	0.88	13.4	4.3	13.24
O	Teleco Oilfield Sv	oilfield services	-7	13 $\frac{1}{4}$	20 $\frac{1}{2}$ -12	0.63	21.0	0.4	6.05
N	PepsiCo	soft drink	-6	34	50 -32 $\frac{5}{8}$	2.76	12.3	4.8	18.60
O	Oceaneering Intl	oilfield services	-5	10 $\frac{7}{8}$	16 $\frac{5}{8}$ - 8 $\frac{1}{2}$	0.66	16.5	0.0	6.72
O	Mark Twain Bancshs	banking	-5	15	16 -14 $\frac{1}{2}$	2.79	5.4	4.8	22.59
N	Tesoro Petroleum	petroleum	-4	16 $\frac{3}{8}$	18 $\frac{3}{8}$ -14	2.90	5.7	2.4	27.67
N	Daniel Industries	oilfield equipment	-4	10 $\frac{3}{4}$	14 $\frac{7}{8}$ - 9 $\frac{1}{4}$	1.99	5.4	1.7	11.50
N	Eastman Kodak	photo/chemical	-3	69 $\frac{3}{8}$	98 $\frac{1}{8}$ -64 $\frac{1}{8}$	6.83	10.2	5.1	45.51
N	Michigan Energy Res	utility	-3	12 $\frac{3}{8}$	15 $\frac{7}{8}$ -11 $\frac{1}{2}$	0.90	13.8	10.8	NA
O	Piccadilly Cafeterias	restaurants	-3	13 $\frac{3}{8}$	18 $\frac{3}{8}$ -13 $\frac{3}{8}$	1.08	12.2	4.6	7.29
O	Provident Bancorp	banking	-3	46 $\frac{3}{4}$	48 $\frac{1}{2}$ -41	5.42	8.6	0.2	46.99
O	United Cities Gas	utility	-2	11 $\frac{3}{4}$	13 $\frac{1}{4}$ -10 $\frac{3}{4}$	1.48	7.9	11.1	16.06
N	Long Island Ltg	utility	-1	14 $\frac{3}{4}$	18 -14 $\frac{1}{2}$	2.72	5.4	13.7	18.65
O	Moore Prods	precision instruments	0	26 $\frac{3}{4}$	33 $\frac{3}{4}$ -26 $\frac{1}{4}$	2.15	12.4	3.3	19.75
N	Wendy's Intl	fast-food service	0	14 $\frac{3}{4}$	19 $\frac{5}{8}$ -11 $\frac{3}{8}$	1.17	12.6	1.6	6.55
O	Color Tile	specialty retail	1	14 $\frac{1}{4}$	28 -13 $\frac{3}{4}$	1.28	11.1	0.0	9.80
N	Sea Cont/SeaCo Grp	maritime	1	23	31 -22	2.97	7.7	1.8	10.61
O	William E Wright	apparel	1	11	15 $\frac{1}{2}$ -10	1.65	6.7	3.3	13.65
N	Sargent-Welch Scien	precision instruments	1	26 $\frac{7}{8}$	32 $\frac{1}{2}$ -25 $\frac{1}{4}$	1.35	19.9	4.5	24.48
N	Duke Power	utility	2	21 $\frac{7}{8}$	24 -20 $\frac{1}{2}$	3.32	6.6	10.4	25.07
N	Suave Shoe	footwear	4	8 $\frac{7}{8}$	13 $\frac{7}{8}$ - 8 $\frac{1}{4}$	1.63	5.4	3.4	11.70
N	Cincinnati G&E	utility	5	16 $\frac{7}{8}$	20 -16 $\frac{1}{2}$	2.60	6.5	12.8	20.14
O	First Okla Bancorp	banking	5	16 $\frac{1}{4}$	21 -14 $\frac{3}{4}$	1.55	10.5	3.9	20.99
O	Bitco	insurance	5	19 $\frac{1}{4}$	27 -17 $\frac{3}{4}$	2.32	8.3	6.9	35.98
N	Dominion Resources*	utility	5	20 $\frac{7}{8}$	23 $\frac{3}{4}$ -19 $\frac{1}{2}$	2.88	7.2	11.5	18.48
N	Johnson & Johnson	health care/hosp sup	5	40 $\frac{7}{8}$	51 $\frac{1}{2}$ -38 $\frac{3}{4}$	2.64	15.5	2.7	15.85
N	Frank B Hall & Co	insurance	5	27 $\frac{7}{8}$	35 $\frac{3}{8}$ -24 $\frac{1}{2}$	1.27	21.9	6.1	14.92
N	Washington Wtr Pwr	utility	6	19 $\frac{1}{8}$	22 $\frac{3}{4}$ -18 $\frac{1}{2}$	8.03	6.3	13.0	22.54
A	Ionics	water purification eq	7	17 $\frac{1}{4}$	25 $\frac{3}{4}$ -17	1.12	15.4	0.0	11.93
O	Independent Bkshs	banking	7	12 $\frac{1}{4}$	13 $\frac{1}{4}$ -10 $\frac{3}{4}$	1.44	8.5	2.4	11.22
O	Heritage Wisconsin	banking	8	14	14 -13	1.83	7.7	4.3	14.72
N	Kroger	grocery stores	8	38 $\frac{3}{8}$	47 $\frac{1}{4}$ -34 $\frac{7}{8}$	4.28	9.0	4.9	32.81
O	Washington Energy	utility	8	13 $\frac{3}{8}$	15 $\frac{1}{8}$ -12 $\frac{1}{2}$	1.42	9.2	12.2	17.58
A	American Biltrite	floor covering	8	6 $\frac{1}{2}$	7 $\frac{1}{2}$ - 3 $\frac{1}{2}$	0.18	36.1	2.3	8.61
A	American Petrofina	petroleum	8	59 $\frac{1}{4}$	60 $\frac{5}{8}$ -47 $\frac{1}{4}$	3.36	17.6	5.4	52.07
N	Aetna Life & Cas	insurance	9	36 $\frac{1}{8}$	44 $\frac{3}{8}$ -32 $\frac{7}{8}$	4.22	8.6	7.3	47.27
O	Central Banking Sys	banking	9	20	22 $\frac{1}{2}$ -18 $\frac{3}{4}$	2.14	9.3	2.0	15.68
N	American Elec Pwr	utility	9	17 $\frac{3}{8}$	20 -17	1.85	9.5	12.8	20.36
N	Northwest Inds	multicompany	9	40 $\frac{1}{2}$	44 $\frac{7}{8}$ -32 $\frac{1}{2}$	0.96	42.2	6.6	37.53
N	Portland General Elec	utility	10	14 $\frac{1}{4}$	16 $\frac{3}{8}$ -13 $\frac{1}{4}$	2.94	4.8	12.5	18.45
N	Carolina Pwr & Lt	utility	10	21 $\frac{1}{4}$	23 -18 $\frac{7}{8}$	3.16	6.9	11.0	25.09

*Formerly Virginia Electric & Power. A: American Stock Exchange. N: New York Stock Exchange. O: over-the-counter.

Source: Wilshire Associates

Of D&B and P/E

Dun & Bradstreet cheap at 20 times this year's projected earnings? That's awfully hard to swallow. But Edward Dunleavy of Salomon Brothers thinks the stock is a real bargain. D&B, he claims, is ready to go on a profit tear that will make your head spin.

His evidence: Although D&B introduced the electronic version of the *Official Airline Guide* less than a year ago, he expects this and the other airline guide to account for 22% of operating income by 1987. Meanwhile, D&B continues to hold dominant franchises in credit services, Yellow Pages and direct mail marketing.

What's more, thanks to the sale of television stations and internally generated cash flow, by the end of 1984 D&B could have as much as \$1 billion in cash on hand. A handy acquisition kitty, if needed. The other side of the balance sheet looks terrific, too; D&B has no long-term debt.

If there is a potential problem, it is in the information processing services subsidiary D&B acquired in 1979 for \$164 million. Here, D&B struggled in minicomputers before giving up and now is floundering in the time-sharing business. But Dunleavy thinks that corporate profits will grow at a 22% rate over the next five years despite this drag.

That would put D&B on the same track as Dow Jones and well ahead of McGraw-Hill. But Dow Jones is selling at 25 times his 1984 earnings estimate for the company, while D&B's multiple is just 17 times the \$3.70 he expects it to earn next year. Dunleavy thinks they both should carry the same P/E.

If you agree, consider this: At a P/E of 25, by 1984 D&B shares would sell for over \$90, nearly 50% more than current trading levels. There could be some big gains in store.—**Thomas Jaffe**

Bad Karma on Wall Street?

Jefferies Group, Inc., a well-known California block trader, joins the ranks of brokerage firms going public. At a projected price of \$20 per share, insiders and the company will get \$35 million for selling just 22% of the business. Boyd Jefferies, who founded the firm in 1962, gets \$2.2 million of that. But he also ends up with stock valued at another \$30 million.

Relative to other recent securities industry offerings, the 5-times-book, \$160 million market valuation for Jef-

feries isn't out of line. First-half revenues doubled, and profits—\$6.7 million for the period—are up a spectacular 700%. Still, Jefferies shareholders are buying into a business very different from retail brokerage. With only 111 salesmen, Jefferies deals largely in institutional trades, executed off the major exchanges.

The deal, and others like it, gives analyst Perrin Long of Lipper Analytical Distributors pause for thought. It typifies a trend that usually occurs when markets get hot and brokers can use rapid earnings growth to bring in cheap public capital. Brokers, moreover, have an uncanny history of selling stock at the top. After Merrill Lynch went public at \$14 in 1971, its shares quickly went to \$28 and then didn't move much higher for a decade.

Perrin Long isn't predicting another decade of doldrums. But he points out that few industries are as cyclical as brokerages. Given present volume declines and interest rate uncertainties, many securities firms bet the next half of 1983 won't be as good as the last. Undoubtedly the Jefferies offering is a good deal for the sellers. But the buyers?—**Richard Stern**

A not-so-healthy wait

Despite the past year's troubles, Johnson & Johnson is still a hallowed name to many investors. And today, with the stock around 41—where J&J fell in the depths of the Tylenol scare last October—there are some who figure this may be the time to buy.

Drug analyst Richard Vietor of Drexel Burnham Lambert, however, says that anyone interested in J&J will have to be patient. To begin with, he thinks the stock isn't exactly cheap, even now. Its P/E is 14 times estimated 1983 earnings of \$2.90 a share.

Then there's the matter of the Tylenol comeback. In its heyday, the product had a near-90% share of the \$550 million over-the-counter market in nonaspirin analgesics. When the bottom fell out, after poisoned capsules caused seven deaths, J&J worked so hard to remerchandise Tylenol that by spring the brand had almost regained its former status. But ever since, steady challenges from competitors like Panadol (Sterling Drug) and Datriil (Bristol-Myers) have chipped the Tylenol share back to 80%. According to Vietor, Tylenol's days as a growth product are over; it's set for the cash cow pasture.

There are also nagging questions



*Johnson & Johnson's headache
Destined for the cash cow pasture.*

about McNeil Pharmaceutical, J&J's ethical drug business. From 1976 to 1981 McNeil's growth rate was second only to SmithKline's.

Then came the March recall of its painkiller Zomax. What's happened since at McNeil? With the new product pipeline now looking less promising, the firm has considered the marketing of other companies' drugs that may become generics.

Meanwhile, the strong dollar has stymied J&J growth overseas. Otherwise one of the company's strongest near-term bets is nuclear magnetic resonance, a diagnostic imaging technology up for approval by the Food & Drug Administration. There also is home health care and biotechnology. Says Vietor: "None of these will be big enough soon enough to make the stock snap back quickly."—**T.J.**

Here come the frizzies

Want your hair to be beautiful and bouncy? Then Farrah Fawcett shampoos may be just right. Or perhaps you would rather buy some Brut cologne, splash it on like Joe Namath and step right into a kiss with a pretty girl? By all means proceed. But if you like buying stock, you won't find similar glamour in the shares of \$270 million-a-year Fabergé, Inc., the outfit that makes these products.

Revenues grow at a snail's pace and profits are erratic. In fact, the most substantial thing about Fabergé is the handsome salaries paid to Chairman George Barrie, 71, and his two executive sons. Last year, for example, the Barries, who own 14% of the company's stock, walked home with \$1.8 million in compensation. Fabergé profits, by comparison, were an unin-

"What is a cynic? A man who knows the price of everything and the value of nothing."

—Oscar Wilde

Certainly there were no cynics among the eight industrialists who founded Ducks Unlimited while the Dust Bowl years drained the life out of North America's wetlands. Their belief that they could help the continent's waterfowl reached beyond the horizon and years, for they knew that price is as temporary as value is lasting.

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spiring \$6.5 million in 1982.

Lately, however, the company's share price is around 23, after being as low as 17 this January. The runup stems from a thermal screening device that Fabergé hopes can detect breast cancer. Recently Fabergé has even attracted a major outside shareholder—Roy Disney's Shamrock Holdings. Disney is the son of Walt's late brother and a 3.2% owner of Walt Disney Productions.

But Shamrock, which paid \$6.6 million for 5.7% of Fabergé, says it wasn't drawn to the company by the potential medical market. "They've got great brand names, good distribution and they've stuck to the mass market instead of getting too fancy," says a spokesman. "What the company does need, however, is to become more efficient, and that's where we hope we can help."

Good luck. The sticky problem of paying off the Barrie clan is sure to come up. They have fat long-term contracts. Meetings should certainly be interesting.—T.J.

Hats off to Steinberg

The irrepressible Saul Steinberg may sometimes seem like he's down, but it's never wise to count him out. Take the 24.9% investment his Reliance Group has in Imperial Corp. of America. The savings and loan holding company's combined losses of about \$7 a share over the last two years distinguish it as one of the poorest performers among the big public S&L firms. Even this year, as other S&Ls have picked up, analyst Allan Bortel

of Shearson/American Express still estimates Imperial's earnings will be zero. For 1984 he predicts \$1.50 or so—if interest rates stay down.

But one man's disaster is another man's potential turnaround. At least that seems to be the attitude of Lyman Hamilton of New York's Tamco Enterprises, who last month took an option through Dec. 31 to buy Reliance's Imperial shares at \$15 apiece. You remember Hamilton. He was Harold Geneen's successor at ITT. Bounced after 18 months there as CEO, Hamilton moved on to Tamco, a private investment company, made a couple of unsuccessful runs at City Investing and has been relatively quiet ever since.

Now, he has surfaced in a way that might make Steinberg look like a genius. With Imperial's stock trading around 11 on the Big Board, Hamilton's offer is a 35% premium over market value. Add the money Reliance should receive from Imperial's earlier spinoff of a Texas S&L to the \$53.1 million it will get if this deal goes through, and Steinberg shows a \$30 million-plus profit on the five-year-old investment.

"I take my hat off to Steinberg," says another analyst. "How he found somebody to pay top dollar now for a company still doing so badly I'll never know."—T.J.

Timing is everything

Think you have troubles? Consider the plight of the folks who bought into Bradford National just before this spring's nasty proxy fight.

New York-based Bradford, a \$135 million-a-year financial services company, had long been struggling. The stock, however, caught the eye of William Siegel, a Texas oilman who once worked for ARA Services. Starting two years ago, he and his colleagues bought up some 6% of Bradford's 4.25 million common shares.

By April 1983, a month before the Siegel group filed a proxy to take control of the board, Bradford sold as high as 29, almost 5 times its 1982 low and nearly 3½ times book value. Speculators figured, no matter who ended up in charge, there was a good chance the company would be sold.

The dissidents won—but with a curious twist. To gain control, they needed the support of another group of investors—customers of Advest, Inc. (p. 66), who held 28% of Bradford's shares. More than half of that stock was accumulated through two now-departed brokers who were members of the Siegel slate.

These days, of course, Advest customers who bought into Bradford back in 1981, when it bottomed at 5½, have no complaints. But how about any latecomers who jumped on board in the high 20s, before the Siegel folks were voted in?

With Bradford recently around 20, some may be nursing paper losses of 30%. The company was running slightly in the red through June; a takeover hasn't materialized, and the new chief executive is a public accountant who previously headed a Dallas chain of ladies' wear stores.

Still, Peter Del Col, Bradford's former chairman, isn't complaining. After the takeover he sold his 78,000 remaining shares for \$1.95 million, around a \$1.75 million profit over their cost. The folks who got in late should be so fortunate.—T.J.

Last one out

Another of Wall Street's little guy freeze-outs is about to succeed. Since late 1981 King Kullen Grocery Co., the \$428 million-a-year supermarket chain based in Westbury, N.Y., has been officially buying in stock in order to reduce the number of public shareholders to under 300. Now that it has gotten there, King Kullen last month announced plans to petition the SEC to have its stock deregistered. Soon the 690,000 or so shares will no longer be quoted on the NASDAQ system, and financial reporting will be minimal.

The firm's ability to go private seemed hardly in doubt. Well over half the shares belonged to management, the founding family's trusts and employee ownership plans. King Kullen stock has also been cheap, trading at only two-thirds of book value recently.

It's too late, but if ever there had been an opportunity for an ambitious management to put together a leveraged buyout deal, there couldn't have been a better candidate than King Kullen. It has no long-term debt, trades for 3½ times cash flow and owns undervalued Long Island real estate. In fiscal 1982 the chain earned \$3.49 a share, up 23%. Ah, well.

One investor, in any case, has no intention of being bought out on the cheap. Mutual Shares, a fund that specializes in undervalued situations, and its clients own more than 10% of King Kullen stock. Says Michael Price, a Mutual Shares director: "I'm 32, and I'll wait 30 years and be the last shareholder if I have to in order to get fair value."—T.J.



Lyman Hamilton of Tamco Enterprises
Disaster compounded?

Is it time to exhibit more aggressive behavior?



In our opinion, the current bull market will continue well into 1984. With intermittent short-term corrections.

Granted, the easy money has already been made. But there are still opportunities for those willing to pursue highly selective strategies in equities.

But how aggressive you can be depends on what type of investor you are. And what degree of risk you can take.

If you can handle above-average risks, you can seek above-average gains by investing in speculative stocks or emerging growth companies. You might also investigate stocks likely to benefit

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Appalling things are coming out as state governments start moving to real accounting. Therein lies opportunity.

THE GAAP GAP

By Ben Weberman



Like some people, governments seem to operate rationally only in crisis. Take the crisis of investor confidence in state and municipal general obligation securities that has lasted ever since New York City almost defaulted in 1975. State governments all over the country, in order to sell their bonds, are increasingly moving toward generally accepted accounting practices (GAAP) and outside auditors.

New York City itself led the way. Even after it weathered the crisis, the city feared investors would not touch it with a 10-foot pole. So out of necessity, New York became one of the first big cities to use GAAP and outside auditors.

At the same time, states led by Maryland and Tennessee began going to GAAP; Maryland also hired outside auditors. (Both are important, for obvious reasons; the figures, audited or not, don't mean as much without an understandable rationale; and a city's or state's claim that it is using GAAP will be enhanced when independently confirmed.) Today, says Robert Happ, managing partner of Peat, Marwick, Mitchell's Albany, N.Y. office, most major U.S. cities have outside audits, and most of the states are at least moving to implement GAAP.

All this, of course, is very good for

investors. But for the shrewdest of investors there is also an opportunity in the trauma aroused by the appalling things now coming out of the woodwork.

Appalling? Take the state of New York. While New York City was going through its well-publicized travail, the state was also getting in trouble by creating huge and burdensome moral-obligation agencies over which there was little legislative control. It was falling ever shorter of meeting debt service requirements on the do-gooder projects of agencies like the New York State Urban Development Corp. Ever since he took office in 1979, State Comptroller Edward V. (Ned) Regan had been warning that on a cash basis the state was going into the hole, but the balance sheets did not show it. Regan finally prevailed on the legislature to adopt GAAP and hire Big Eight accounting firm Peat, Marwick, Mitchell to do an independent audit.

The new accounting took effect after Apr. 1, 1982, and the results have been shocking. The general fund operating deficit, reported at \$552 million in the year ended Mar. 31, 1982, nearly doubled to \$1.076 billion in the following fiscal year. The accumulated deficit rose from \$2.9 billion to nearly \$4 billion. The audit revealed that the state was postponing income tax refunds to the following fiscal year and also deferring obligations like subsidies to local school districts.

New York is not alone. California, which has been phasing in GAAP for the past two years, reported a general fund deficit of \$154 million in 1982 under its old accounting. Converted to GAAP numbers, that 1982 deficit jumped to more than \$1 billion. California's fiscal 1983 results are not yet on

GAAP, but preliminary estimates under the old method show a deficit of \$669 million. The mind boggles at how much this will turn into when real numbers are reported.

So what's the opportunity? Just this: Investors have been so spooked by those startling increases that, for example, New York State's cost of borrowing has gone up by about 25 basis points (0.25%) on long-term general obligations.

But the trauma won't last. In time, investors will come to see the value of true and audited figures and the healthy effects that will flow from them. For one thing, the politicians will have a measure of fiscal discipline forced on them. New York State's new system, for example, uses accrual accounting based on when the liability was incurred rather than when the bill was paid. That sort of thing was unheard of in state government only a few years ago. Moreover, Peat Marwick, which audited the first New York State GAAP balance sheet, will take on operating statements as well and by 1985 will be doing all principal financial statements. Result: Not only will the figures be reported accurately, but the state will become financially stronger.

GAAP will also bring some continuity into state and municipal accounting. All too often, these government issuers create a wondrous financial statement when the debt is marketed, then forget the whole thing until it's time to come to market again. Some Mississippi localities did that so often that S&P's pulled their ratings. Continuity also builds investor confidence.

As all these healthy effects of true and accurate accounting become apparent, investor confidence will revive. So New York, instead of paying a 25-basis-point premium to issue debt, could save as much as 50 basis points on issues farther down the road. Result: lower yields of state and municipal securities issued in the future by those states biting the bullet now. That means the price of bonds issued now—while the bad news is still fresh in investors' minds—will go up. A New York State general obligation, for example, is currently priced at 108.45 to yield 8.6% to maturity in 1995. That is sure to be enhanced by lower yields later on. ■

Ben Weberman is economics editor of FORBES magazine.

DJI 1450 or A.D.1985 is when I plan to move to the sidelines and sit out what I see as some nasty economic accidents.

MAKE YOUR MONEY AND RUN

By Ann C. Brown



Everybody and his brother, unless, of course, his brother happens to be Joe Granville, seems to be in agreement that the stock market will resume its upward march. Many strategists expect the second leg of the bull market to kick off as a result of a decline in interest rates later on this year. Other pundits believe interest rates will hang in close to where they are but predict that corporate profits will soar in '84 and with them stock prices. As for me, I'm inclined to think that the market will go up because the vast majority of outspoken financial thought leaders are absolutely convinced it is going up and will mouth-power it to new high ground. However, I don't intend to stay too long at the party. Whichever comes first—1450 on the DJI or 1985 on the calendar—my present plan is to take to the sidelines at that time and sit out what look to be some nasty economic accidents.

Leading the list of potential problems is the almost universal, if erroneous, assumption that inflation will remain moderate because of low labor demands in the face of continuing record unemployment. Don't count on it. Most government-gathered statistics are open to question, and the intensely personal

and politically critical jobless numbers are frequently misleading, misinterpreted and misunderstood.

Consider those workers busily making a bundle in the underground economy who also collect a weekly check from Uncle Sam. Then there are those persons who could be employed if they only were willing to accept less than the perfect job at something less than their previous salary. And what about the individuals who have made unemployment their life's work—street smarties with all the angles who have taken permanent advantage of what was originally intended to aid the temporarily out-of-work worker? My guess is that the actual unemployment rate is closer to 7% than 9½%. That makes the rate only slightly above the 6% so-called full-employment level below which inflation has been shown to begin climbing at a worrisome pace.

While we are overblessed with workers in yesterday industries like steel, heavy equipment manufacture, auto production, etc., the labor market in the "now" industries shows little or no excess labor supply. This suggests that before long the pressure will be on these and other industries for improved and expanded total compensation packages. This, in turn, will cause unit labor costs to rise, which will unfavorably impact the inflation rate and result in upward pressure on interest rates and downward pressure on security prices.

Second, many bullish economists have been cheerily citing the low current industrial capacity utilization rate as proof positive that a resurgence of inflation is many moons away. Not so, according to some seat-of-the-skirt research. Recently I asked an economic think tank to break down the 75.8% over-

all capacity utilization rate by industry. While some industries were still operating at only 61% of capacity, others were running flat out. This means one of two things: Either these capacity-strapped industries will come to the capital markets in search of funds to expand operations, or they will raise prices. Either way, directly or indirectly, the CPI will increase, which is unhealthy for stocks and the investors who hold them.

A third factor is the barely mentioned drought of '83 and the big pop in the price of edible commodities caused by the dry spell, coinciding with the Administration's controversial PIK program and the generous and long-lasting grain deal signed with the Soviet Union. While Mr. Reagan endeared himself down on the farm, the shopping-cart crowd will notice cash-register creep for months to come. Oil and gas prices, too, may have ended their anti-inflation, good-guy roles. Lebanon, the Chad invasion and the continued hostilities between Iran and Iraq have done little to lessen Middle East tensions. Add to these the fact that only now is the rest of the West seeing the first signs of recovery, and energy prices could be up and away.

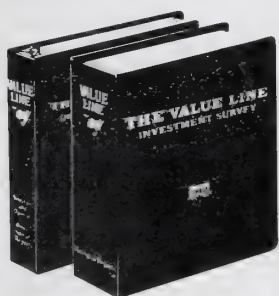
Finally, there's the budget deficit, which shows every sign of continuing at record levels for years to come. There's no way the conservatives are going to abandon defense spending, any more than the liberals are going to do away with social programs. If we could finance the deficits and new private capital requirements out of savings, there wouldn't be a problem. However, when the deficit and investment demands exceed savings, interest rates rise, unless the Federal Reserve decides to run, run, run the printing presses, which in short order will result in an overheated economy and an underwhelming Dow.

Don't let all this frighten you out of your stocks. It's only a growly bear warning that there's a heap o' danger ahead in them thar investment woods. But where there are bears, there's honey, too, and come the next regular issue of FORBES I should have completed my promised list of possible sweet stock buys the summer correction has so unselfishly provided. ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio management firm of A.C. Brown & Associates.

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Venture clubs, an important element in the new economic development process, are springing up all over the country.

STARTING AN ITCH

By Thomas P. Murphy



You can start your own venture capital club. I did it ten years ago, and the Connecticut Venture Group in Stamford is now the largest in the country. David Silver did it last year in Santa Fe; he already has 50 people showing up for the club's monthly dinner. That's pretty good, considering that Silver is the only major venture capitalist in New Mexico.

Venture clubs aren't new. They have been around a long time in a handful of large cities: New York, Boston, San Francisco, etc. What distinguishes the Stamford-style clubs are a relatively open approach to membership, a very simple organization structure and a meeting format that evolved out of our ten years of experience. Beyond Santa Fe, new venture clubs are being planned in several other cities that I know of.

Let me confess, the Stamford club's style is a product of necessity rather than genius. We had to have a reasonably open admissions policy, for example, or the whole club in 1974 could have met in a booth of the local diner. The informality stems from a conviction of mine that business people are used to co-operating. Petty rules and procedures bore them and waste time. The club had no bylaws until this

year. I can't recall hearing anyone read the minutes of the last meeting and we did not bother with treasurer's reports, since nobody seemed interested.

Don't misunderstand me. Despite this apparent lackadaisical approach, we take money seriously. It is a venture capital club, after all. To make sure there was plenty of money, the club adopted what turns out to be a unique approach to finances. Members pay dues of \$175 a year in advance. That buys lunch and pays a professional club management firm. In Stamford it is Baxter Associates. The latter handles the considerable details that 200 or so members can generate.

Paying upfront also is good motivation for attendance. Every time someone misses lunch, the club profits because everyone has already paid. There is none of this "let's all turn out for the next meeting" stuff. We are perfectly happy to have members stay away. Unfortunately, about 150 of them usually show up anyway.

It is easy to explain what the club is not. But what is it? And why are these venture clubs beginning to spring up in the rest of the country?

Initially, the club's success stemmed from something very simple. It brought together the handful of people in an area who were either in venture capital or something closely related to it. Imagine what a fine feeling it is to discover that you are not the only hippopotamus in the zoo.

Later, as the club began to grow, it was obvious that an infrastructure for deals and venture capital was evolving: accountants joined, lawyers, business brokers, wealthy individual investors, consultants and one marvelously prolific professional inventor who describes himself

as a Ben Franklin look-alike.

The format for the Stamford meetings invites a kind of auction market. It is called the Five Minute Forum, a misnomer, since anyone talking for more than a minute is gavelled down. But in 60 seconds an inventor can describe his invention, and an out-of-work company president can announce his availability. We had quite a run of the latter during the recession.

Entrepreneurs also regularly demonstrate their products. One recently startled the membership by shooting his new invention across the hotel ballroom. Let me tell you, that is some dart gun.

If all of this sounds improbable, our experience in Stamford shows that reality does catch up with pretension. The Stamford area has become a major venture capital center—I would guess number four or five in the whole U.S.—and the club helped. Before, it seemed frivolous and impractical to run a venture firm in the suburbs. Now it seems quite normal, and entrepreneurs know there is plenty of venture money in the Stamford area.

But to get back to David Silver. Why start a club when you are just about the only venture capitalist in the state? With a new \$25 million pool of capital, he needs entrepreneurs. Silver started the fund on the premise that the nearby Los Alamos National Laboratory was a huge and untapped source of innovation. Why compete with 50 other venture capitalists in Silicon Valley?

As it turns out, Silicon Valley's scientists and engineers had something those in Los Alamos don't yet have—the entrepreneurial itch. So the mission of the Santa Fe club is to try to start that itch. The process is beginning to work: A quite remarkable technology for rapid diagnosis of certain diseases has been developed in the lab, and Silver will finance its commercialization.

Venture capital, small high-tech companies and the new American entrepreneurial spirit are spreading out across the country from the old centers in the Northeast and California. With that will come dozens of new venture clubs. They are useful, they are fun and, I think, they are important to the new economic development process. ■

Thomas P. Murphy heads a venture capital firm, Partnership Dankist, Stamford, Conn

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SILVER CORPORATION (ARIZONA) O-V CONTINENTAL SILVER CORP. (CONTINENTAL) O-V JOINT NEWS RELEASE

VER, B.C., Canada, September 1, 1983
PROCESSING of UNDERGROUND ORE from
WHITE HILLS SILVER PROPERTIES COMMENCING
G of HIGH-GRADE "EUREKA MINE" ORE SCHEDULED
EXTENSIVE DRILLING PROGRAM UNDERWAY

IA" and "CONTINENTAL" have announced that
sing of high-grade underground ore from the
White Hills Silver Properties located in Mohave
zona will commence during the second week of
1983. Confirmed values of this ore range from
) oz. silver/ton to in excess of thirty (30) oz.

ie from United Nuclear Industries of a scanner
machine specifically programmed for assaying
the acquisition of two mobile drills has resulted
lation of development work on the White Hills
rk is currently being directed towards the estab-
oreserves from some of the numerous known
ures which exist throughout the Properties with
ve of maintaining continuous production of un-
ore. A drilling program has commenced which
in excess of One Hundred Thousand (100,000)
ing being conducted this Fall.

EUREKA MINE PROPERTY

st ten (10) months "ARIZONA" and "CONTINEN-
en conducting development work on the
ine Property"—Mohave County, Arizona located
eral vicinity of the Companie's White Hills Silver
Work to date has resulted in the establishment of
onage to initiate the shipping of ore which is
approximately 30 oz. silver/ton and silica values
(% silica/ton). The first shipment of ore from the
50% owned—Continental's 40% owned) "Eureka
s scheduled for no later than Sept. 15, 1983.
he next few weeks "ARIZONA" and "CONTINEN-
e releasing more detailed production information
the White Hills Silver Properties and Eureka
perty.

CAPITALIZATION

Ver Corporation	Continental Silver Corp.
10,000,000 Shares	Authorized 5,000,000 Shares
3,926,934 Shares	Issued 3,145,085 Shares
	Listed:
Stock Exchange/ARZ	Vancouver Stock Exchange/CVR
/ARZ NF	NASDAQ /CTL SF

Charles S. Underhill, Director, Arizona Silver
& Continental Silver Corp., Suite 1140, 625
t, Vancouver, B.C. Canada V6C 2T6 Phone (604)
or Michael Connor, Balfour Securities, Suite 2170,
venue, New York, N.Y. Phone: (212) 489-7133.)

INC. N

ARK, N.Y., Aug. 25—The Board of Directors of
ic. (NYSE-PSE) declared a quarterly dividend on
ial manufacturers recently-split* stock, raising
to 20 cents per share beginning with the third
dividend to be distributed in September. This 20
hare payment represents a 33 percent increase,
had previously paid the equivalent of 15 cents
quarterly.

Quarter dividend of 20 cents per share is
September 30th to stockholders of record Septem-
ber 33.

Increased dividend, indicating an annual rate of 80
share, will make 1983 the 34th consecutive year
METEK has raised its total dividend payments to
s. "This is a nearly unique record among big-

A American Stock Exchange

board listed industrial companies," AMETEK's chairman Dr.
John H. Lux noted, "and the decision to increase the
dividend now reflects the company's strong earnings trend
which should continue through the second half of 1983."
With record earnings in the past four consecutive quarters,
AMETEK last month reported the most profitable quarter in
its history with earnings up 17 percent to \$8.3 million or 39
cents per split share for the second quarter of 1983.

*AMETEK distributed a 100-percent stock dividend on July 15th to
stockholders of record July 1, 1983.

(Contact: Darrah E. Ribble, Jr., AMETEK, Inc., Station
Square Two, Paoli, PA 19301. Phone: (215) 647-2127.)

BUTLER NATIONAL CORPORATION O

KANSAS CITY, MO., Aug. 9—Butler National Corporation,
of suburban Kansas City, reported higher profits on lower
sales volume during the fiscal year ended April 30, 1983,
today announced Gerald R. Smith, company president.

During the fiscal year, Butler National sold the Distance
Measuring Equipment (DME) product line, a part of its
avionics business, to Fernau Avionics Ltd., of the United
Kingdom. The sale of the DME technology, goodwill and
inventory will position Butler National to concentrate on the
growth potential of its other, more profitable business lines.

The DME business was a marginal business line for
Butler National and it was projected to continue to reduce
the profitability of the company's other business lines.

For the fourth quarter Butler National reported lower
sales, of \$1,580,192, and a profit of \$189,522 or 7 cents
per share, versus a profit of \$159,986, or 6 cents per share,
during the fourth quarter of the previous year, on sales of
\$1,769,979.

Butler National also reported that higher-than-anticipat-
ed transitional costs and an inventory adjustment totalling
\$295,898 were incurred because of the DME product line
sale, and the third quarter results were restated to account
for this adjustment.

Revenues of \$4,995,154 for the full year were also lower
than the previous year's \$5,198,849. Profit for the year was
\$458,170 or 17 cents per share, including a gain of \$154,102
on the sale of the DME business line, versus a profit of
\$195,983 or 7 cents per share, for the previous year.

The firm order backlog was \$3 million at year end, as
compared with \$2.5 million at the same time last year.

(Contact: Gerald R. Smith, president of Butler National,
at 8426 Nieman Rd., Lenexa, Kans. 66214, phone (913)
888-8585 or Brooke E. Poirier of Boasberg Company at (816)
756-1867 for Butler National.)

COLOR TILE, INC. O

FORT WORTH, TX., Aug. 18—Color Tile, Inc., a specialty
retailer of do-it-yourself home improvement products with
600 stores nation-wide, announced today sales of
\$241,136,000 for the fiscal year ended June 30, 1983, an
8.3 per cent increase over prior year sales of \$222,674,000.

Earnings for the year were \$13,061,000, or \$1.25 per
share, 9.4 per cent more than prior years earnings of
\$11,936,000 or \$1.13 per share.

Fiscal Year Ended June 30	1983	1982	1983	1982
Net sales	\$241,136,000	\$222,674,000	\$62,098,000	\$60,278,000
Income before income				
taxes	\$22,620,000	\$20,570,000	\$7,094,000	\$6,969,000
Provision for income taxes	9,559,000	8,634,000	3,023,000	2,582,000
Net income	\$13,061,000	\$11,936,000	\$4,071,000	\$4,387,000
Average shares				
outstanding	10,462,000	10,556,000	10,508,000	10,425,000
Income per average				
common share	\$1.25	\$1.13	\$0.39	\$0.42

Color Tile remains in a very healthy financial position, with
current assets 3.3 times greater than current liabilities.

The number of retail stores increased from 566 to 595 for
the year and, the company said, as it sees an improvement
in the economy and especially the housing resale market, it

O Over-the-Counter

will continue to increase its store opening program.

"It gives us a great deal of pleasure to report an earnings
per share increase for the year, despite the still prevailing
adverse economy through most of the fiscal year," stated
John A. Wilson, Chairman of the Board, President and Chief
Executive officer.

(Contact: Barry W. Witt, Vice President & Treasurer, Color
Tile, Inc., 515 Houston Street, Fort Worth, TX 76102. Phone:
(817) 870-9634.)

PRIME MOTOR INNS, INC. N

CLIFTON, N.J., Aug. 16—Prime Motor Inns, Inc. (NYSE:
PDQ) reported record earnings for the quarter and fiscal year
ended June 30, 1983. Net income for the fourth quarter
increased 53% to \$3,596,373 compared with \$2,349,259
for the comparable period last year. This was achieved on
revenues of \$21,449,756, a 45% gain over the previous
year. Earnings per share of \$.27 were 35% greater than the
comparable period despite 16% more shares currently
outstanding.

For the fiscal year ended June 30, 1983 net income of
\$12,687,761 was 39% greater than fiscal 1982. Revenues
increased 23% to \$67,196,664. Earnings per share were
\$.99 compared to \$.80 on 13% more shares outstanding.

Mr. Peter E. Simon, Chairman, stated that, "our expansion
program is on track and moving forward. We will
complete four new motor inns and anticipate additions to
five existing motor inns in our current fiscal year. We are
presently negotiating to acquire sites for future develop-
ment to enhance our position in the major commercial and
industrial markets in the Northeast. We are optimistic
regarding our future and our ability to attract the commer-
cial traveler to our motor inns."

	3 Mos. Ended June 30		12 Mos. Ended June 30	
	1983	1982	1983	1982
Gross revenue	\$21,449,756	\$14,788,479	\$67,196,664	\$54,826,204
Net income	3,596,373	2,349,259	12,687,761	9,098,214
Average shares				
outstanding	13,425,267	11,586,933	12,872,947	11,387,421
Earnings per share	\$.27	\$.20	\$.99	\$.80

(Contact: Howard D. Kahan, Vice President-Director of
Corporate Activities, Prime Motor Inns, Inc., 1030 Clifton
Ave., Clifton, NJ 07103. Phone: (201) 779-4100.)

TELECOM PLUS INTERNATIONAL, INC. O

LONG ISLAND CITY, N.Y., Aug. 12—Telecom Plus Interna-
tional, Inc. (NASDAQ: TELE) today reported record sales and
earnings for the quarter ended June 30, 1983.

Net sales for the quarter rose to \$26,925,726 from
\$15,607,883 in the like quarter a year ago. Net income rose
76% to \$2,154,442 and \$1,221,788 in the 1982 quarter.

Earnings per share rose 16 percent to \$.22 per share vs.
\$.19 per share in the like quarter a year ago. Weighted
average number of shares outstanding in the June quarter
of 1983 were 9,867,493, which is 52 percent higher than the
6,512,117 weighted average number of shares outstanding
in the corresponding 1982 period. The foregoing results do
not give effect to a two-for-one stock split effected in July,
1983.

TELECOM PLUS INTERNATIONAL, INC.

Statement of Income				
(Unaudited)				
	6 Mos. Ended June 30	3 Mos. Ended June 30	1983	1982
	1983	1982	1983	1982
Net sales	\$51,830,107	\$27,856,083	\$26,925,726	\$15,607,883
Net income	4,067,854	2,163,774	2,154,442	1,221,788
Net income per share	\$.46	\$.34	\$.22	\$.19
Weighted average number of shares				
outstanding	8,917,437	6,369,189	9,867,493	6,512,117

(Contact: Glenn Friedman, Manager-Public Relations,
Telecom Plus International, Inc., 48-40 34 Street, Long
Island City, NY 11101. Phone: (212) 392-7700.)

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Observations

The bond market is refusing to discount the current low rate of inflation. The bond market is probably right.

HAPPY DAYS ARE HERE AGAIN?

By Ashby Bladen



Since last March I have been warning that economic recovery would send long-term interest rates soaring once again, in response both to excessive and increasing demands for credit and to the fear of accelerating inflation. Well, long-term interest rates *have* risen substantially since then, but the inflation rate has not. Is the bond market shying away from the ghost of an enemy once fearsome but now dead? Or is there really something ominous out there that the conventional view prevents us from seeing clearly?

The question is vital. If conventional wisdom is right, we may be about to resume the healthy economic growth of the 1950s after a long bout of stagflation. But if I am right, our policies are more likely to produce renewed inflation, continuing financial troubles and a stagnant or declining standard of living.

The conventional view is that the only thing you can either borrow or spend is money. The bond market was right to worry in the first half of the year when the money supply was growing fast, but now the Fed has things under control.

That is the conventional view but it is not mine. Things are not that simple. I have long argued that the

root cause of inflation is simply an excessive rate of debt formation. Purchasing power is created by any loan that gives it to the borrower but does not cause the lender to lose it until the borrower pays him back. How is that possible? It is possible whenever the lender takes back a note from the borrower that he can rediscount at his bank or sell on the market; that way he can retrieve and spend the purchasing power before the loan is repaid. In other words, our ability to create purchasing power out of thin air is made possible not by the growth of the money supply but by the liquidity of debt instruments in the marketplace. And inflation itself is causing political policy to respond by substantially increasing that liquidity.

Inflation makes people steadily less willing to save today for a rainy day tomorrow. Instead they want to borrow and buy now before the price goes up. They also want to be able to spend quickly such savings as prudence still leads them to make. Because they are reluctant to commit savings for long terms, financial institutions have to hedge against the possibility that their customers will withdraw their deposits. The financial system as a whole is responding to those pressures by making it progressively easier for people to withdraw, to sell or to borrow against assets that used to be illiquid so that they can go out and buy some more. It is also making it easier for financial institutions to sell or borrow against the loans that they have already made so that they can go out and lend some more. Two examples of this liquidification of once-illiquid assets are home equity loans (see p. 192) and the secondary markets in existing mortgage loans provided by Fannie Mae and her government

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of *How to Cope with the Developing Financial Crisis*.

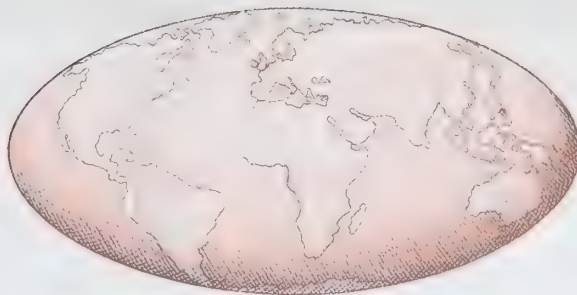
sponsored cousins. In those ways we continue to create an inflationary excess of purchasing power, regardless of what is happening to the money supply.

Last year the American people borrowed about \$11 billion from foreigners, and this year it looks to me as if we will borrow about \$12 billion or \$15 billion more. Those loans are being used essentially to buy Japanese cars and German beer, not to buy the tools that would make our economy more productive and better able to pay the loans. Thus, we are taking a tentative first step on the slope down which Mexico, Argentina and Brazil have already tumbled.

The wholesale creation of purchasing power by borrowing put the rate of inflation through the roof in those countries, but so far it has not done so here. The high interest rates, which are inducing foreigners to lend to us, are also keeping the dollar overvalued for commercial transactions and making those Japanese cars and German beers cheap in this country. But the overvaluation of the dollar is a temporary phenomenon. We cannot go on borrowing heavily abroad without creating doubts about our ability to turn enough at the overvalued exchange rate to repay the loans. So our rising international debts will eventually bring the dollar down—and send inflation up.

The excessive rate of debt formation that causes inflation eventually creates a burden of interest payments and principal repayments that is also excessive by comparison with the incomes from which they have to be paid. That is why a peaceful disinflation is not very likely. Too many people have a vested interest in inflation; they have borrowed too much on the assumption that inflation will continue to be able to carry their debts. A recent example is the minority of farmers who overextended themselves to buy land at peak prices and who rapidly got into trouble when the price of farmland stopped going up. Washington hastily launched the FSLIC program to bail them out.

The real alternatives that we face are deflation or renewed inflation. The bond market fears that as long as there is a choice, politicians will choose inflation. ■



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The past year has not been very kind to professional commodity traders, but they probably did better than amateurs. Why?

JOINING THE PROS

By Stanley W. Angrist



Not many people will dispute the fact that somewhere between 60% and 90% of all individual commodity traders lose money. But the commodity markets represent a zero-sum game, which means that for every dollar lost, there is a dollar made. So who is making all those dollars that the amateurs keep plying up? Answer: the professionals. Well, why don't the amateurs get the professionals to trade for them? The answer is not as obvious as it might seem.

First, not all the pros want to trade for anyone but themselves. Second, most amateurs are in commodities for reasons other than just trying to make money—such as ego gratification. And, third, there are pros who will trade for others, but the amateurs have trouble picking out the good ones, and the pick is a critical one.

A lot of things—attitude, expertise, experience—separate the pro from the amateur. The accompanying table itemizes these differences in a number of areas important to speculators. In every dimension, the pro—who is usually the winner—is seen to have the edge.

So how do you get a pro to do your trading for you? The simplest way is to join a privately managed com-

modity pool or a publicly offered commodity fund—a mutual fund, in effect, traded as a single account.

Keep in mind that even though, on average, the pros do better than all but the most skilled and determined amateur, employing a professional is no gilt-edged guarantee of success. And over the past year commodities have been particularly

difficult to trade. There have been few long-lasting trends, which is what most of the pros depend on to generate profits.

As evidence, look at the recent survey of Managed Accounts Reports (5513 Twin Knolls Road, Columbia, Md. 21845) monitoring professional commodity money managers—31 private pools and 64 publicly offered funds—for the year ended last June 30. The average change in net value for the private pools: minus 4.9%. To be sure, there were some stars; the biggest gain was 77.7%. But the biggest loser lost 45.1% of its assets. The 64 publicly offered funds did even worse. They showed a 24.5% decrease in overall net asset value. The biggest gainer managed only a 9.7% increase, while one fund lost 66.7%. Professionals, too, can go into the tank in dreadful markets. ■

The right stuff

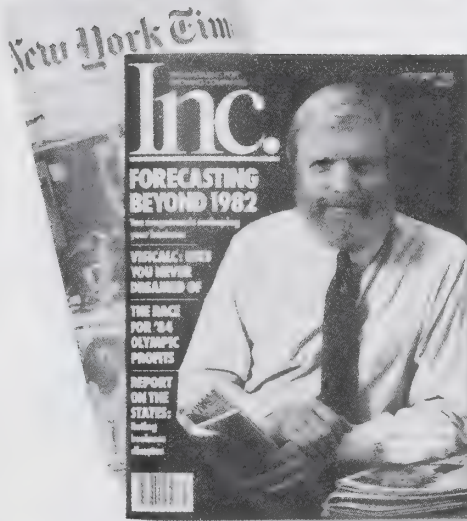
These characteristics have been observed to be important in achieving success in commodities markets. On balance, professionals, perhaps because their livelihoods depend on it, have the traits of the winners. But nothing prevents an amateur from taking on winning characteristics.

Factor	Losers	Winners
Capitalization	Undercapitalized; can absorb few losses; cannot lessen risks by diversifying	Well capitalized; absorb reasonable losses as diversified profits develop
Capital management	Usually 100% invested	Maintains large, long-term reserves
Discipline	Emotional; takes big losses; small profits	Reacts to preset buy/sell signals
Planned strategy	Little planning; changing strategy; frequently averages down	Extensive planning; never averages down; cuts losses; lets profits run
Diversification	Builds concentrated positions in only a few commodities	Trades 15 to 25 different markets; never more than 18% in one market
Latest information	Imperfect knowledge	Well-tested trading systems, research
Goals	Instant gratification	Long-term plan
Risk control	Often none; frequently wiped out; takes high risks	Uses alerts; protective stop points; if equity drops to certain point, trading ceases
Timing	Decisions made only when broker calls; gets news too late	Acts immediately upon signals and market knowledge
Margin calls	Very frequent	Never
Attention to market	Part-time attention; misses data, trends	Full-time following of market prices, trends
Trader contact	Infrequent and rare in adverse markets	Regular, frequent contact in all markets

Source: Commodity Futures Brokers, Inc.

Stanley W. Angrist is a commodity speculator, consultant and long-time observer of the commodity market.

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From a career point of view, which type of would-be executive are you? Barroom brawler or disciplined boxer?

THE BURT REYNOLDS TEST

By Srully Blotnick



You want a promotion. Or you are applying for a new job, one you want badly. How do you impress the person who is doing the hiring? My advice is: Be careful how you walk. Be careful how you drive.

What have walking or driving to do with whether someone can do a job? In the eyes of top executives, plenty. Mike L. recently asked his boss, Jack N., for a raise and a title. He was met with the reply, "I'll think about it." The day was a busy one, and Jack didn't have a chance to consider the promotion until he was leaving the building at 5:30 and saw Mike pulling out of the company parking lot just ahead of him. The two drove in the same direction for a mile before Jack saw a gray car pulling hastily in front of Mike only a few feet past the point where their road merged with another.

Jack, the boss, describes what happened next: "Suddenly, Mike accelerated, pulled alongside the gray car and started making obscene gestures at its driver." Then Mike pulled in front of the car that had cut in front of him, missing the gray car's bumper by inches. To make certain the other car got the message, Mike then deliberately slowed down a little, as he later put it, "to

erase any gains the SOB thought he had made at my expense."

Let me introduce you to Mike. Far from being an idiot, he is a 36-year-old marketing professional with an M.B.A. from one of the nation's top graduate schools of business. Mike is tall, thin, mustachioed—"Mr. Lean and Mean" is how he often refers to himself. He has been working for Jack for 1½ years and decided that it was time, as he put it, "to take the next step up the corporate ladder." But when Mike buttonholed Jack the next day and asked about the pay raise and promotion, Jack's answer was, "You're not getting either one. I'm not sure you are even housebroken yet," and walked away. To put it mildly, he had been turned off by the way Mike responded to the obnoxious driver.

I later asked the disappointed Mike whether he would have driven that way had he known Jack was behind him.

His reply: "Sure, that's the way I always drive. Besides, I want him to see how aggressive I am, that I have what it takes to go places."

Why did this behavior turn Jack against Mike? I asked Jack. His reply: "Aggression is all well and good, but I want people who know how to *channel* it." Without either party's realizing it, Jack had administered, and Mike had passed, what I call "the Burt Reynolds test." Mike is lucky he still has his job. A high score on this test is dangerous to your occupational health.

Jack's view, in essence, is that there is a big difference between a barroom brawler and a disciplined boxer. The boxer doesn't waste his energy swinging wildly but watches for his opportunity and then puts everything he has behind the blow; that's controlled aggression. It's what makes great boxers and great

executives. Whether he or she knows it, that's what your potential or current boss is looking for.

In the Jack and Mike incident, Jack was applying the controlled-aggression criterion unconsciously. A lot of other executives with-hire and-fire authority apply the same criterion quite consciously. "Watch the way someone walks down the sidewalk," said Edwin B., an operations vice president at a major consumer goods company. "There is no better projective test. There is a fellow named Jeff we were thinking of hiring. All it took was tailing him for a half-dozen city blocks—that's not illegal, you know—and I saw everything I wanted to see. Jeff doesn't get out of anyone's way unless he absolutely has to."

"Why is that so revealing?" I asked. Ed's reply: "Because he can't seem to separate the times when assertive behavior is called for and when it is likely to lead to trouble."

Playing *High Noon* on every sidewalk and *King of the Road* on every highway can get you knifed or run off the road in this day and age, but there is more involved here than personal safety. A growing number of smart executives are convinced that aspiring subordinates who chronically become embroiled in these kinds of clashes are destined to become losers, or already are. The evidence I have collected confirms this view. The Mikes in my sample have done significantly less well than their peers, in spite of impressive credentials. I've found, too, that people who were repeatedly rated by co-workers as argumentative when they were in their 30s are more than three times as likely to get fired when they are in their 50s. Instead of brawling in bars, they have unwittingly been doing it at the office—and been paying the price in terms of career progress.

Why can't they see it? What prevents them from recognizing their own self-destructive behavior on the job? Precisely because they react in so fiery a manner outside of the office, they tend to regard their relatively restrained behavior in the office as highly civilized. By contrast, it is. Nevertheless, they are wearing the same chip on their shoulder—and it shows—even though they don't indulge in shoving and shouting matches at the office.

Dr. Srully Blotnick is a research psychologist and author of Getting Rich Your Own Way and Winning: The Psychology of Successful

The majority of executives don't get the opportunity to watch promising employees drive on the highway or walk down a crowded street. Instead they use indoor versions of the same test. They scrutinize everyone carefully for signs of unchanneled aggressiveness.

How does an aspiring employee prove himself or herself a boxer and not a brawler? One simple but important way is by being a good listener. Does the applicant interrupt the interviewer? Does he try to overwhelm him with his knowledge and the force of his personality? If so, he sinks himself. Said the president of a computer company: "I don't care how excited the guy is, if I'm in the midst of a sentence, I expect him to wait."

Does all this sound suspiciously like drive plus good manners produce good managers? That is certainly what the evidence indicates. Take the case of an employee who feels the need to push a given policy. Why rub the boss' nose in it? "I realize there is a fine line here between being enthusiastic and being irritating," said a retailing executive. "But I really don't have to be beat over the head to get a point."

Are you the kind who takes credit for other people's work? Do you think it is demeaning to share the limelight with an associate? If so, watch out. You may get away with it for a while, but eventually the boss will find out, usually from the people who were elbowed out of the picture. Then it will be clear that your assertiveness stems from insecurity rather than from inner confidence. At committee meetings do you try to steal center stage? It is more effective to hold back, participating calmly, until you have a powerful point to make, and then drive it home decisively.

To sum up, it may be fun to watch Burt Reynolds in those *Smoky and the Bandit* movies about a fast-driving scofflaw pursued by willing young women and admired by the nation's truckers. But people who behave like that in real life become increasingly pathetic as they age. Put it this way: Ambitious young people with their eyes on the executive suite must make up their minds. Where do they want to be boss; in the suite or the street? They can't be both. ■



Edwin C. Holmer,
President,
Exxon Chemical Company

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**Do you know anybody
who is somebody in business
who does not read
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**Forbes:
Capitalist Tool**

Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ." Items from past issues of FORBES



New York's Ellis Island, the famed "Gateway of America," came in for considerable criticism during the Twenties for its treatment of would-be immigrants

Sixty years ago in FORBES

(From the issue of September 29, 1923)

"The usual summer slackening caused employment in manufacturing plants in New York State to recede slightly during August. Textile mills, sugar refineries and factories connected with automobile manufacture reported the most noticeable decreases, while gains were made chiefly in the apparel trades. Bricklayers in New York City are beginning to be plentiful and have begun to apply for work at the contract rate of \$12 a day on large commercial buildings now in course of construction, instead of waiting for bonuses and other inducements."

"Reductions in the prices of automobiles were announced by some of the leading manufacturers. The Willys-Overland Co. cut prices on all Overland models from \$30 to \$100. The touring car and roadster are now listed at \$495, against \$525. The Chevrolet Motor Co. announced reductions in prices of the touring car, roadster and sedan models ranging from \$20 to \$65. Maxwell cars were reduced \$40 to \$90 and Chalmers cars \$50 to \$100. There are rumors to the effect that the Ford Motor Co. is contemplating a reduction of from \$25 to \$60 per unit on the various models produced by the company."

Fifty years ago

(October 1, 1933)

"The main motive of business, it has always been accepted in the past, is profit. . . . What is the first duty of

every responsible citizen at this critical juncture in the country's history? To hold the nation together.

"Concededly, without some margin of profit, industry and business cannot possibly thrive, cannot possibly expand operations, expand facilities, expand employment. Unless investable capital is offered reasonable wages, fresh capital will not be forthcoming to push the country ahead. Temporarily, however, the primary and principal objective of every thoughtful American must be to co-



Walter F. McCaleb, pioneer U.S. labor banker who set up a dozen union-sponsored banks, had a certain salty wisdom of his own. "No bank is ever wrecked by small borrowings," he said. "A few excessive loans, usually to insiders, are at the bottom of most bank failures."

operate wholeheartedly in keeping things going. . . ."

—B.C. Forbes

"By next spring, stores in Wisconsin, Minnesota and thereabouts may be selling 'room units' at a price of less than \$100 each. Each 'room unit' is a light but rigid structure which can be fitted up as a kitchen, dining room, bedroom or living room. One unit can readily be aligned with and joined to other units, to form a practical vacation home. A demonstration home which has been in use this past summer has hot and cold running water; refrigerator, gas and heating range; sink; concealed living, bedroom and bathroom fixtures; and an air-conditioning system. The cost of the house itself is \$220."

Twenty-five years ago

(October 1, 1958)

"The bond market last month was about as soft as a three-minute egg. But that didn't stop hard-boiled Sears, Roebuck from scrambling to market with the largest underwritten debt financing by an industrial company in U.S. history. In its first essay into long-term debt financing in 38 years, the mammoth mail-order house put on sale \$350 million in sinking fund debentures (due Aug. 1, 1983) with a 4¾% coupon. . . ."

"Like most other fast-expanding utilities in the postwar years, Chicago's Commonwealth Edison has often had to worry where its next hundred million dollars was coming from. Gone were the days when it could borrow all it needed at an interest cost of as little as 2¾%; recently it has had to pay a stiff 3⅞% for its long-term loans. As for the two alternatives to borrowing, neither has been particularly attractive. One—the sale of more common stock—dilutes stockholders' equity in future earnings. The other—the relentless plowing back of earnings—deprives stockholders of the dividends which are dear to the heart of every utility investor. . . ."

"Last month, Commonwealth Edison Chairman Willis Gale thought he had a simple answer. [He] proposed that the company should henceforth pay out all of its earnings to stockholders (recently it has been paying out just 73%). But the difference between the current \$2 cash rate and total net earnings would be paid in stock."

Come, come, my conservative friend, wipe the dew off your spectacles, and see that the world is moving.
ELIZABETH CADY STANTON

The spirit that does not soar is destined to grovel.
BENJAMIN DISRAELI

Man's last freedom is his freedom to choose how he will react in any given situation.
VICTOR FRANKEL

What we think, or what we know, or what we believe is, in the end, of little consequence. The only consequence is what we do.
JOHN RUSKIN

Our deeds determine us, as much as we determine our deeds.
GEORGE ELIOT

A Text . . .

For if a man think himself to be something, when he is nothing, he deceiveth himself.

GALATIANS 6:3

Sent in by Roy Farrell, Shafter, Calif. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

You will become as small as your controlling desire; as great as your dominant aspiration.
JAMES ALLEN

Don't let ambition get so far ahead that it loses sight of the job at hand.
WILLIAM FEATHER

Thoughts

on the Business of Life

Bestir yourself more energetically to achieve, and fret less about reward. Pour oil on the machinery of your organization, rather than drop grit in it.
B.C. FORBES

The fruit of timidity is neither gain nor loss.
ARAB PROVERB

If you give yourself to your task at once, you won't have to do it twice.
DAVID SEABURY

The faster you go, the more chance of stubbing your toe, but the more chance you have of getting somewhere.
CHARLES F. KETTERING

It is vain to say human beings ought to be satisfied with tranquility; they must have action; and they will make it if they cannot find it.
CHARLOTTE BRONTË

The common talk of the struggle for survival has obscured the plain fact that man rose in the world primarily by cooperating, not struggling with his fellows.
HERMANN J. MULLER

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To live is good. To live vividly is better. To live together is best.
MAX EASTMAN

When schemes are laid in advance, it is surprising how often the circumstances fit in with them.
WILLIAM OSLER

Definiteness of purpose is the starting point of all achievement.
CLEMENT STONE

My duty as an intellectual is to think, to think without restriction, even at the risk of blundering. I must set no limits within myself, and I must let no limits be set for me.
JEAN-PAUL SARTRE

One learns by doing the thing; for though you think you know it, you have no certainty until you try.
SOPHOCLES

There are obviously two educations. One should teach us how to make a living, and the other how to live.
JAMES TRUSLOW ADAMS

Let us in education dream of an aristocracy of achievement arising out of a democracy of opportunity.
THOMAS JEFFERSON

If a man has a talent and cannot use it, he has failed. If he has a talent and uses only half of it, he has partly failed. If he has a talent and learns somehow to use the whole of it, he has gloriously succeeded, and won a satisfaction and a triumph few men ever know.
THOMAS WOLFE

"Bill, didn't someone recently acquire Dexcel, the company that's a leader in gallium-arsenide field effect transistors, and microwave amplifiers for satellites, broadcasting and military applications?"

"Yes, Malcolm. Gould:" ➡



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